NEXTWEALTH

Managing Lifetime Wealth

Navigating retirement advice against a backdrop of rising interest rates, regulatory disruption and technological innovation: a six-year perspective

AEGON

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Introduction letter from Aegon

Aegon is delighted to once again partner with Heather and her team at NextWealth for the 6th edition of their Managing Lifetime Wealth, retirement advice report. As in previous years, the report looks at the key developments and trends shaping the retirement advice market. Some of these build on findings from previous years, providing a fascinating insight into trends, but, as always, there are new topics to explore.

Last year, we were looking ahead to what the FCA's Consumer Duty might mean for financial advisers and this year, we've been able to assess the actual impact of retirement advice against expectations. This includes the key areas of changes in approach, the foreseeable harms financial advisers identify for retirement clients and a look at how well-equipped financial advisers are to support customers with vulnerabilities.

The cost-of-living crisis has continued during 2023, albeit with signs that inflation may be more under control and interest rates are predicted to fall rather than rise further in the coming year. What has that meant for retirement advice, and how might that change in future? This year's report takes a close look at cash investments and buffers within retirement investment strategies.

This year, we've also looked ahead over different timescales – 2, 3 and 5 years – to assess adviser concerns. It's interesting to see how these vary over time.

Arguably, the biggest surprise affecting retirement advice was the announcement in the Spring 2023 Budget of the abolition of the Lifetime Allowance, along with other relaxations to Annual Allowances. It's interesting to examine how this has increased the demand for retirement advice.

The report continues to offer an important narrative on people's hopes and fears for retirement and how events both worldwide and closer to home continue to shape these.

One topic which has featured in previous years is social care funding. Since the previous report, the Government delayed the introduction of its new funding deal. This has influenced findings on both the supply of and demand for advice.

Of course, 2024 is very likely to be an election year. Politics can have a big impact on pensions, so we also asked advisers what they'd like to see from politicians, whoever might be in power after the election.

The FCA recognises retirement as one of the most complex areas of advice. The volatile macro-economic climate coupled with key changes in regulation and Government policy on pensions taxation add further to this. But it's these challenges which once again highlight just how valuable retirement advice is. There's every sign the retirement advice market will continue to go from strength to strength.

Steven Cameron
Pensions Director at Aegon UK

Executive summary

Demand for retirement advice

Financial advisers estimated that 53% of the assets they advise on personally are for clients receiving retirement advice.

37% of advised clients are fully retired and a further 21% are phasing into retirement.

Along with life expectancy gains, there is a growing awareness of longevity risk (the risk of outliving one's savings).

In 2023 42% of financial advisers said changes to the funding of social care would increase demand for retirement advice. That decreased to 34% in 2024.

In 2023, 28% of respondents said pension dashboards would increase demand for retirement advice, compared to only 19% in 2024.

Nearly half of retired clients are taking regular withdrawals from their retirement savings.

Client objectives and concerns

Rather alarmingly we are seeing an increase in the proportion of advisers who say that clients are completely withdrawing retirement savings over a short timeframe.

One fifth of financial advisers said that their over-50 clients would highlight wealth or finances as needing attention.

A significant portion of advisers acknowledge that some or indeed a majority of their clients adjusted to the prevailing economic conditions, by, for example, staying in work for longer (68%), adjusting withdrawal rates (61%) or adjusting wealth transfer plans (59%).

Most common client aspirations:

- Hope to maintain the same standard of living in retirement as before retirement (76%)
- Assisting the next generations (children/ grandchildren) with financial commitments (65%)

Most common client concerns:

- Running out of money before they die (71%)
- Inflation / cost of living (64%)

Executive summary

Retirement advice approach

55% of financial advisers are using cashflow modelling or scenario modelling to determine a safe withdrawal rate, up from 28% five years ago.

Only 6% of financial advisers say they never recommend guaranteed income products to retirement advice clients. Most (76%) recommend them sometimes. The proportion that always or often recommend these products fell back slightly this year to 18% from 24% last year.

Financial advisers estimate that retirement advice clients have 12% of their portfolio allocated to cash.

In 2018, 43% of firms were providing defined benefit transfer advice but this has fallen to 19% with 7% saying they intend to stop or significantly reduce the volume of this.

Retirement advice & Consumer Duty

42% of financial advisers are 'very confident' in their ability to demonstrate value for money and a further 52% are 'somewhat confident'

We asked financial advisers to select three of the most significant foreseeable harms facing clients in retirement - Inflation reducing spending power during retirement came out as the top chosen by 57%

Financial advisers said that about 1 in 6 of their retirement clients are vulnerable.

Just over half (54%) of financial advisers segment their client-base with a further 10% saying they expect to start doing this in 2024.

Looking ahead

We asked advisers what they view as their biggest concerns in relation to their retirement business over the next two, three and five-year periods.

2-Year	3-Year & 5-Year
Market challenges	Market challenges
Regulatory influence	Regulatory influence
Political instability	Business growth & succession planning

Contents

AEGON NEXTWEALTH

Introduction

This sixth edition of the Managing Lifetime Wealth report, supported by Aegon, charts the continued rise in demand for retirement advice as well as the growing complexity of delivering advice for clients decumulating wealth.

Financial advisers tell us that about half of their client assets are for clients receiving retirement advice, and they expect that share to grow. Financial planning for retirement is one of the biggest drivers of demand for financial advice and also among the most complex.

There hasn't yet been a quiet year for delivering retirement advice. Looking at 2023, there has been a continued cost-of-living crisis, a new set of regulatory rules in the shape of the Consumer Duty and further changes to pension tax rules. In addition to tracking demand for retirement advice and how it is given, this year we have taken an extended look at the challenges and changes faced by advisers from regulation as well as the impact of economic conditions on client behaviour including their cash allocation. Steering and reassuring clients through difficult periods is what advisers do best and where their value can be most appreciated.

This report defines current practices and approaches to managing lifetime wealth for clients, allowing financial advice professionals to benchmark their own approaches against those of their peers. The report also looks at advisers' views of client aspirations and concerns in retirement, specifically looking into the experiences of clients over 50. Finally, the report looks ahead to the challenges and opportunities that advisers will face in 2024 and beyond.

We are grateful to the team at Aegon for their continued support for this research and welcome suggestions for topics to explore in next year's update: enquiries@nextwealth.co.uk.

Heather Hopkins

Methodology

The 2024 report findings are based on quantitative research conducted in November 2023:

- Online quantitative survey of 200 financial advisers
- Comparisons are offered to earlier versions of this report. Quantitative survey results in this report had the following number of respondents: 221 in the 2023 report, 212 in 2022, 212 in 2021 and 227 in 2020.

The profile of financial planner respondents is similar to that of past reports covering a range of firms by size (measured by assets under advice, number of client-facing financial advisers) and the average value of investable assets.

1. Demand for retirement advice

In this section we explore the importance of retirement advice to financial advice firms and the drivers of demand for advice.

1.1 Importance of retirement advice to financial advice businesses

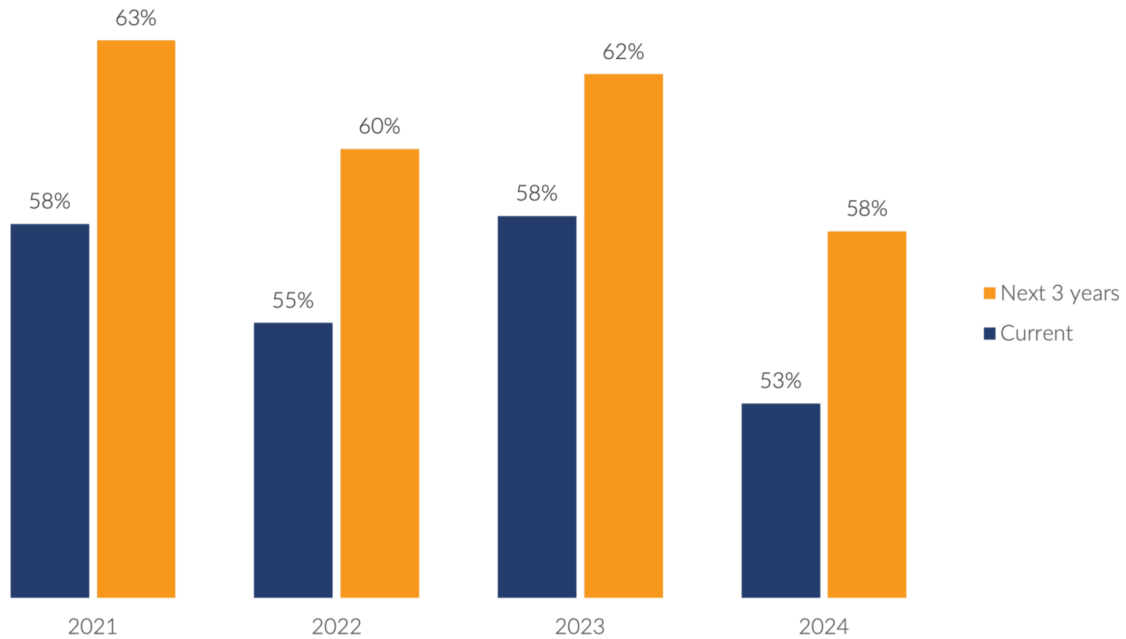
Retirement advice remains very important to financial advice businesses. Financial advisers said that over half of their client assets are for clients receiving retirement advice and that they expect that share to grow in the next three years.

As illustrated in Figure 1:

- Financial advisers estimated that 53% of the assets they advise on personally are for clients receiving retirement advice. That share declined slightly from last year.
- While there has been a decrease in the percentage of assets for clients receiving retirement advice, financial advisers continue to expect that the share of assets for clients in retirement will increase over the next three years.

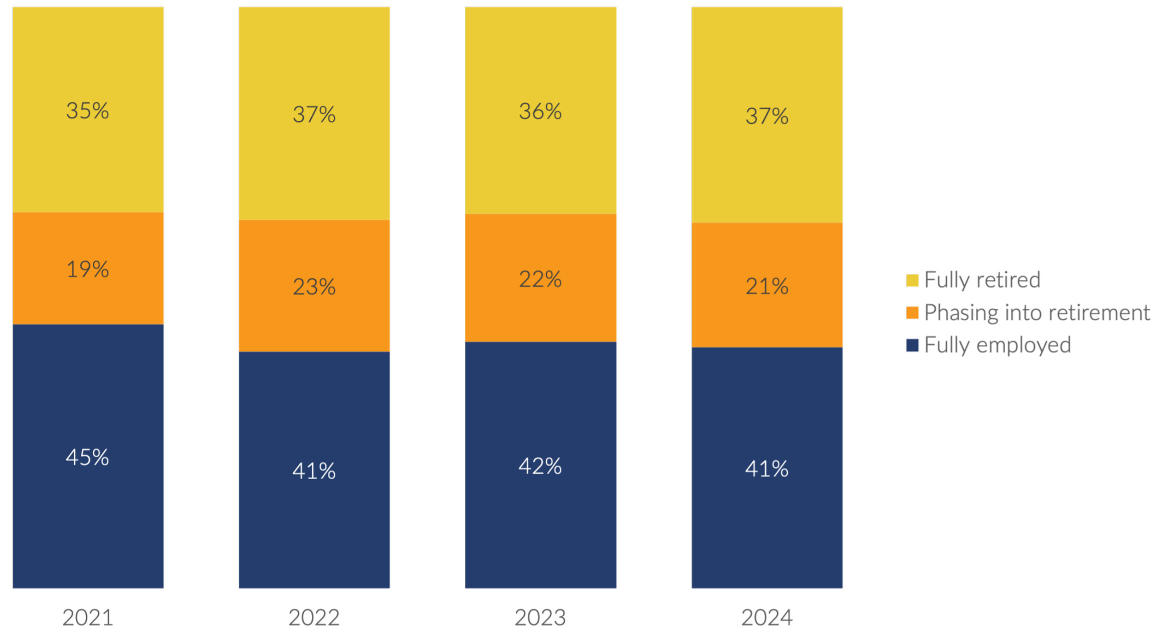
Across our research at NextWealth, we are encountering new challenges in financial advice businesses. Many financial advisers have noted that client review meetings in 2023 were influenced by two consecutive years of higher cash rates. Higher rates combined with on-going increases in the cost-of-living have made it harder to make a compelling case for staying invested.

Figure 1: Percentage of assets for clients receiving retirement advice



The life-stage of advised clients remains consistent year to year: 37% of advised clients are fully retired and a further 21% are phasing into retirement.

Figure 2: Proportion of clients receiving retirement advice by life-stage (excluding previously retired but re-entering work) year on year



This year, we explored whether advised clients are re-entering work after a period of retirement. There have been government proposals and consultations over the past couple of years that look to boost the number of adults in work, including amongst the over-50s, to address labour shortages and wage inflation.

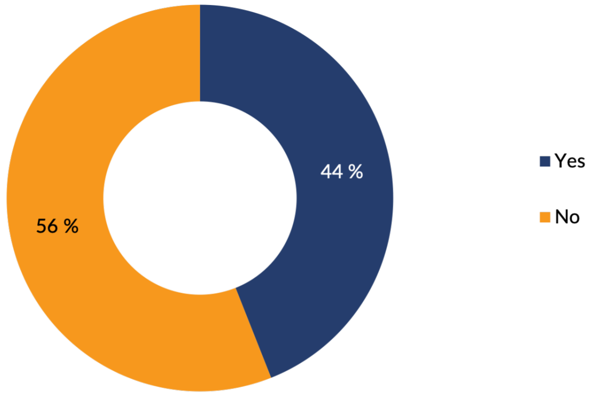
Data from the ONS revealed that in 2022, 22% of 50-64-year-olds were economically inactive, i.e. not working or actively seeking employment[1]. We added an option to capture this trend to the question presented in Figure 2. Financial advisers said that 3% of their clients were 'previously retired but re-entering work.' Interestingly, while it's a small proportion of clients overall, one third of advisers have at least some clients in this segment. (N.B., we have excluded the option from Figure 2 to allow for year-on-year comparisons).

Figure 3 illustrates:

- Nearly half of retired clients are taking regular withdrawals from their retirement savings. For these clients in particular, demand for retirement planning is critical. The financial adviser is responsible for recommending products, investment strategies and platforms most suited to delivering the desired income.
- For the remaining 56% of clients, they may be relying on income for regular living expenses from Defined Benefit pensions, the state pension, rental income or other income sources. Others may be taking periodic lump sums to fund living expenses, enabled by pension freedoms.

[1] *https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/unemployment-and-economic-inactivity/economic-inactivity/latest/#by-ethnicity-and-age*

Figure 3: Proportion of retired clients taking a regular income from retirement savings

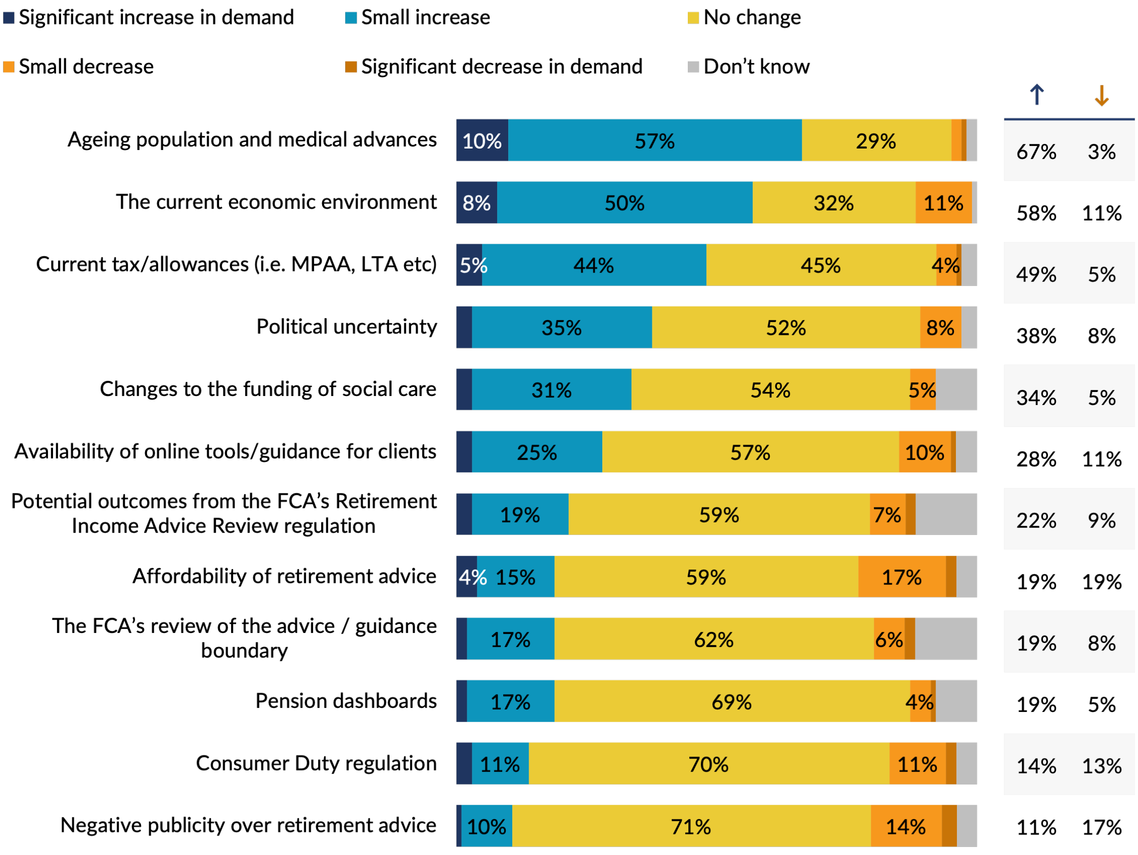


1.2 Drivers of demand for retirement advice

Over the past century, the number of centenarians living in England and Wales has grown 137-fold, reaching 15,120 in 2022. Since 1841, life expectancy at birth has approximately doubled. While life expectancy improvements in England and Wales have slowed in recent years, over the next 50 years, it is expected to increase by 6.6 years[2].

Along with life expectancy gains, there is a growing awareness of longevity risk (the risk of outliving one's savings). An 'ageing population and medical advances' tops our list of factors that will lead to an increase demand for financial advice, cited by 67% of financial advisers.

Figure 4: Drivers of demand for advice



[2] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/articles/mortalityinenglandandwales/pastandprojectedtrendsinaveragelifespan

The following table summarises the factors that financial advisers said are more likely to increase demand for retirement advice or decrease demand for advice:

Factors increasing demand for retirement advice	Factors decreasing demand for retirement advice
Ageing population and medical advances	Affordability of retirement advice
Current economic environment	Negative publicity over retirement advice
Current tax / allowances (i.e. MPAA, LTA, etc.)	Consumer Duty regulation

'Affordability of retirement advice' tops the list among factors that could lead to a decrease in retirement advice. The FCA and Treasury are aware of this challenge and in December, published a discussion paper on the Advice Guidance Boundary Review. The paper sets out proposals that aim to give consumers with less complex needs access to new forms of support. This includes a new form of 'targeted support' as well as taking another look at simplified advice. However, because of the complexity of retirement advice, the FCA is considering not allowing simplified advice here. The regulator is accepting feedback until 28 February 2024. We encourage firms who are concerned about continued access to retirement advice to read and respond to the paper: https://www.fca.org.uk/publications/discussion-papers/dp23-5-advice-guidance-boundary-review-proposals-closing-advice-gap.

In section 2, we look at concerns and challenges to retirement advice businesses and similar themes are raised there. Organic growth through client acquisition and supporting clients with smaller portfolio values were named by 11% of financial advisers as challenges looking ahead five years. Affordability of advice will risk decreasing demand for advice and therefore have a knock-on effect on financial advice businesses. Firms may want to consider opportunities to support a wider range of clients in different ways through the proposals in the Advice Guidance Boundary Review.

We also note that Consumer Duty is ranked 3rd among factors decreasing demand for retirement advice although 14% said it will increase, while 13% said it will decrease so views are mixed. Respondents working in small firms with 10 or less advisers were more likely to see Consumer Duty having a negative impact on their day-to-day operations. Financial advice professionals in smaller firms are likely to have felt the impact of Consumer Duty compliance more acutely than advisers in large firms, where central teams may have taken on much of the efforts to update processes and practices and data collected.

1.3 Year on year comparison

When we compare results year on year, we note that a lower proportion of financial advisers selected 'changes in funding to social care' and 'pension dashboards' as drivers of demand for financial advice.

- **Changes to the funding of social care:** In 2023 42% of financial advisers said it would increase demand for retirement advice. That decreased to 34% in 2024. When we fielded our survey for the 2023 edition in Autumn 2022, we were expecting a new deal to be introduced on social care funding in October 2023. The Chancellor subsequently announced that he was deferring that deal for two years. Until we have clarity on the plans of whoever makes up the next government for funding social care, financial advisers will struggle to advise clients effectively.

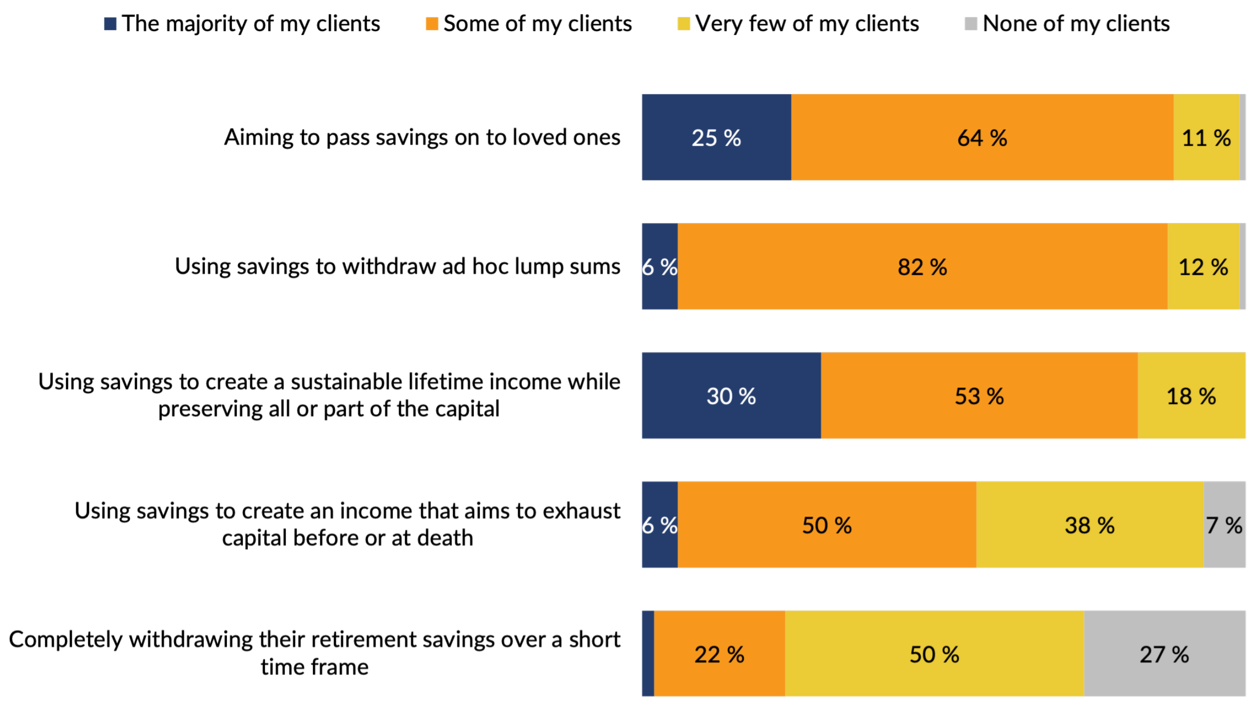
- **Pensions dashboards:** In 2023, 28% of respondents said pension dashboards would increase demand for retirement advice, compared to only 19% in 2024. The pension dashboard programme has been hit with delays and is now not expected to be rolled out to consumers until October 2026.

2. Client objectives and concerns: the advisers' view

We asked financial advisers about client objectives with retirement savings. Figure 5 reveals that:

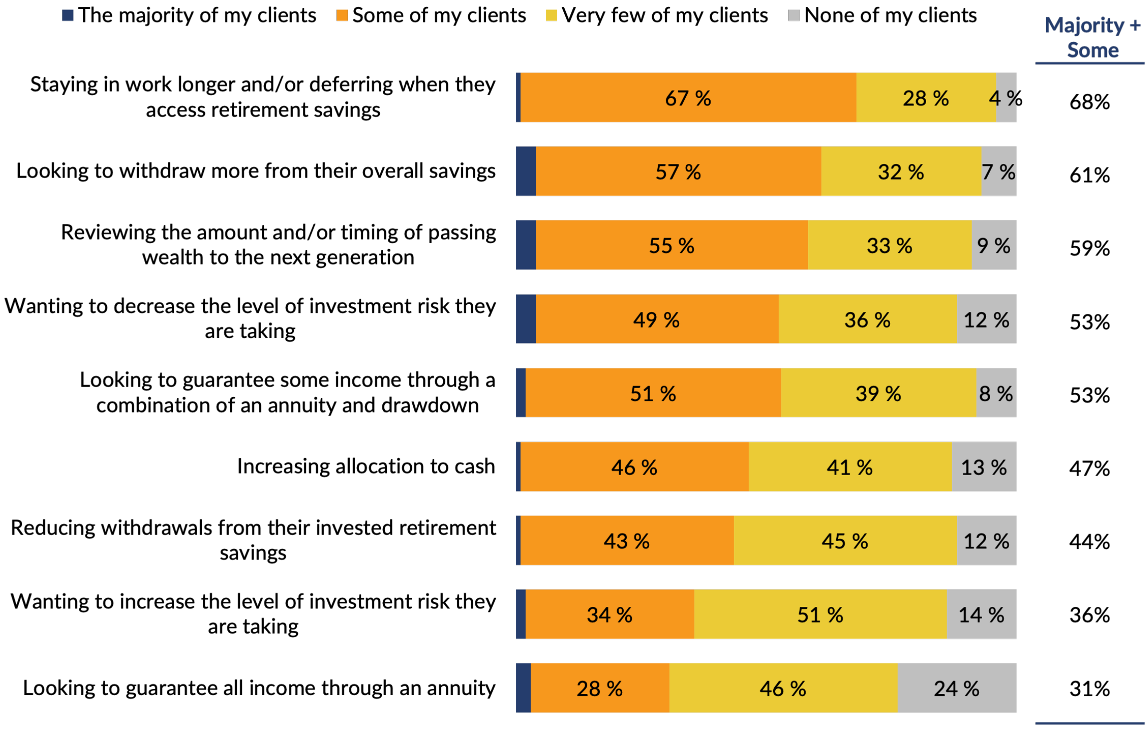
- There are three objectives that stand out as applying to some or the majority of advised clients: passing savings to loved ones (89%), withdrawing ad hoc lump sums (88%) and creating a sustainable income while preserving capital (83%). Looking purely at objectives favoured by the majority, the sustainable income objective comes top (30%) followed by passing savings to loved ones (25%).
- Comparing results over the past five years, we see a steady shift away from the proportion of advisers who say that clients are using savings to create a sustainable income while preserving all or part of the capital. This year, 83% selected this option, a steady downward shift from 96% five years ago. This steady shift may be a result of low natural yield on investments over the past few years that has made an income-driven approach to investing more challenging.
- Rather alarmingly we are seeing an increase in the proportion of advisers who say that clients are completely withdrawing retirement savings over a short timeframe. In this year's report, 24% of financial advisers said that some (22%) or the majority (2%) of clients completely withdrew savings over a short-time frame, compared with 15% in 2023 and 8% in 2020. Further analysis reveals that financial advisers with average client portfolio values of less than £100,000 were more likely to say that they have had clients withdraw their retirement savings over a short timeframe. It may be that those doing so have smaller pots, but it is a trend we will watch closely in future reports.

Figure 5: Client objectives in retirement



We wanted to assess the impact of the challenging economic climate on clients receiving retirement advice. Notably, a significant portion of survey respondents acknowledge that some or indeed a majority of their clients adjusted to the prevailing economic conditions, by, for example, staying in work for longer (68%), adjusting withdrawal rates (61%) or adjusting wealth transfer plans (59%). Clearly, advice can be particularly important when making such adjustments.

Figure 6: Changes in client behaviour due to challenging economic climate



The chart also reveals a divergence of responses in some regards. Many firms have clients who are looking to withdraw more (61%) but also have some clients looking to withdraw less (44%). Similarly some firms witness clients who are looking to decrease investment risk (53%) while others are increasing it (36%). This highlights just how individualised people's circumstances and advice needs are.

2.1 Client aspirations and concerns in retirement

We wanted to better understand the aspirations and concerns of clients receiving retirement advice. A quick glance at the list of aspirations and risks in Figures 6 and 7 show that more foundational elements, such as not running out of money and maintaining the same standard of living trump softer factors, for example replacing social aspects of work and pursuing new hobbies.

There are two common aspirations and two common concerns that stand out.

Most common client aspirations:

- Hope to maintain the same standard of living in retirement as before retirement
- Assisting the next generations (children/ grandchildren) with financial commitments

Most common client concerns:

- Running out of money before they die
- Inflation / cost of living

These hopes and fears are core to the value that financial advisers deliver to clients.

We also note that long-term care costs are a top three concern for clients. This contrasts somewhat with our earlier findings (Figure 4) that showed it further down the list in the drivers of retirement advice. Despite there not being a clear path forward from a policy perspective, funding long-term care is clearly of concern to clients.

Figure 7: Aspirations raised most often by retirement clients

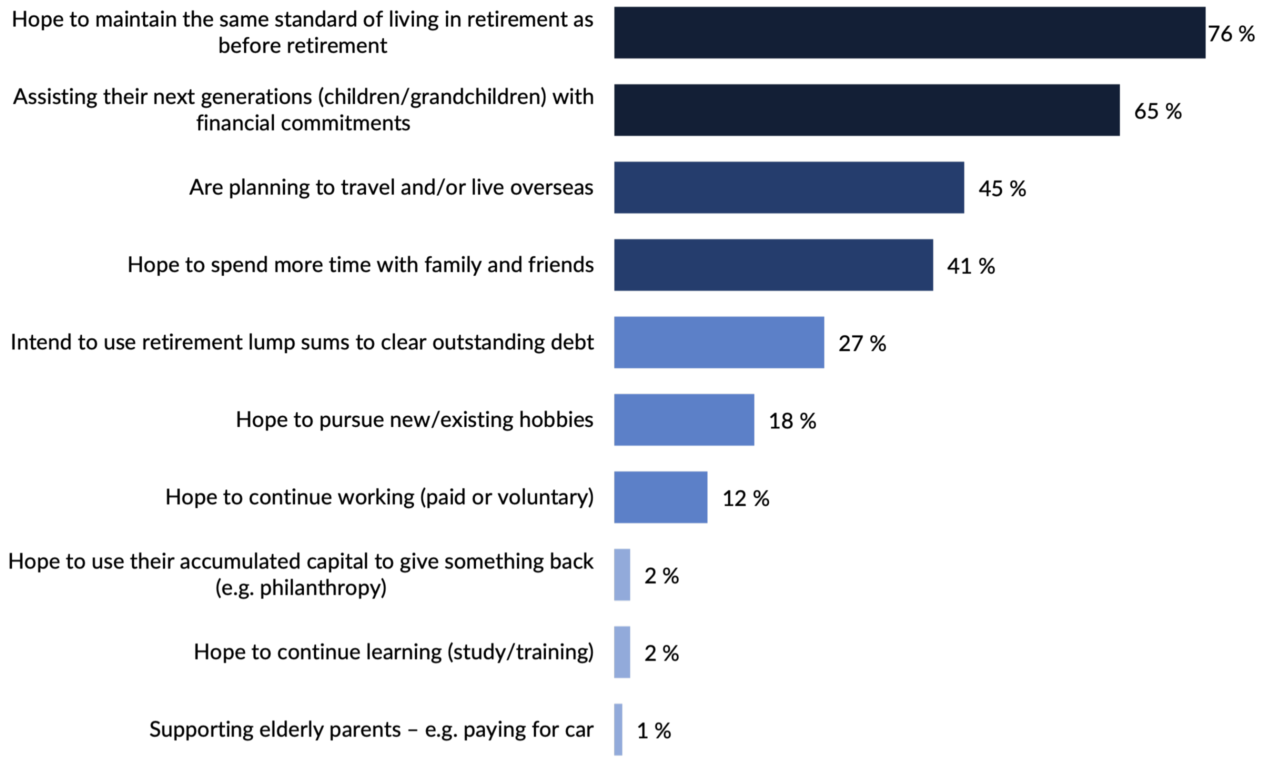
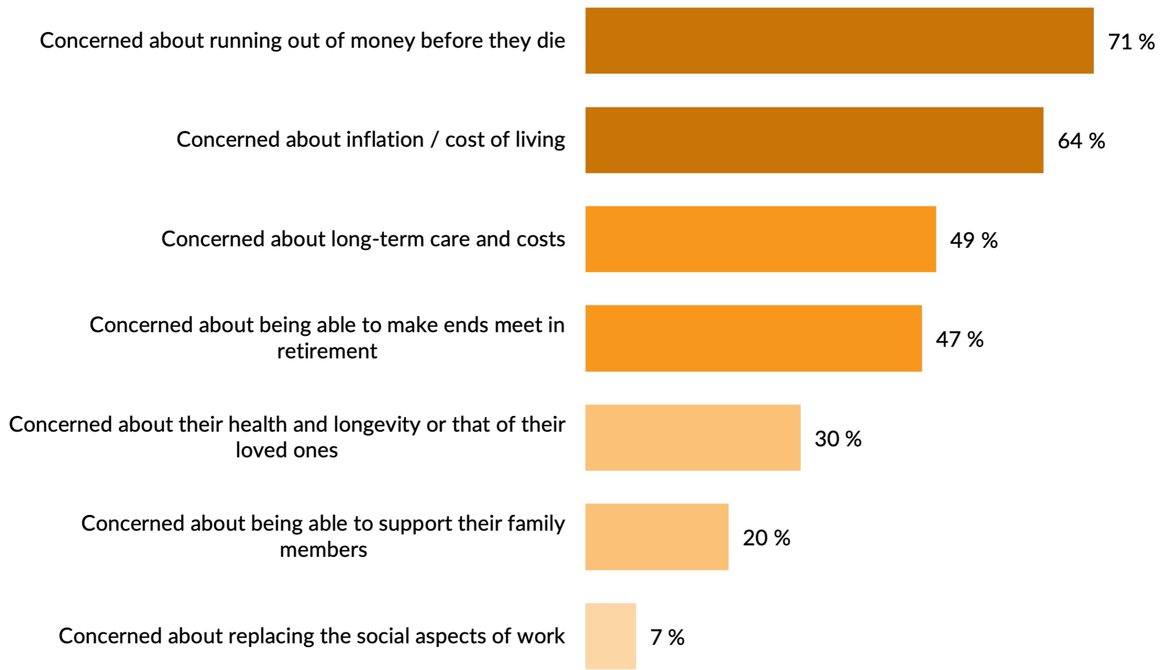


Figure 8: Concerns raised most often by retirement clients



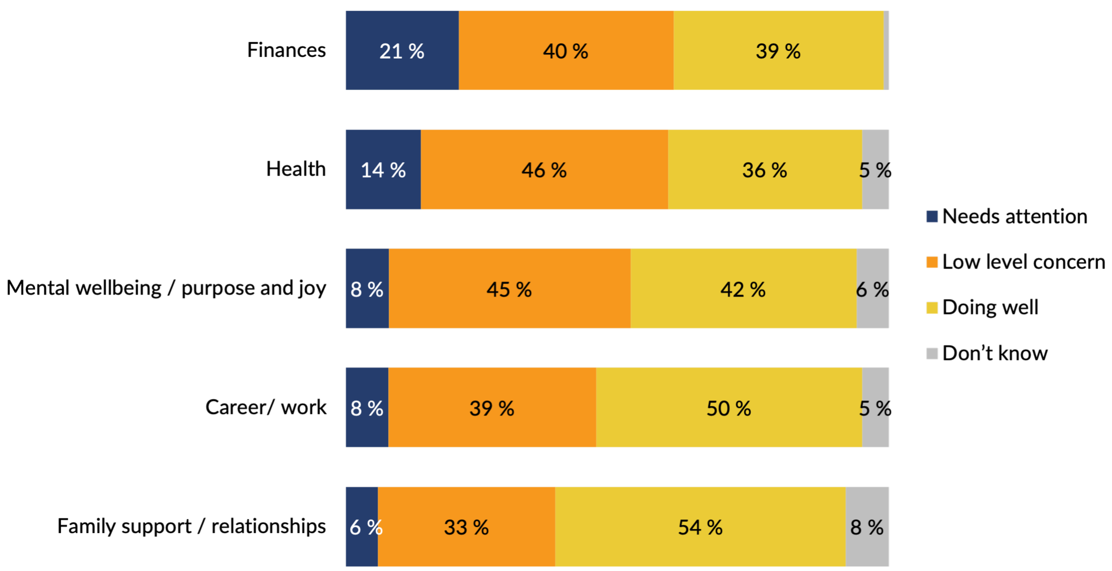
2.2 Client satisfaction, over 50s

In September 2023, Aegon published a research report titled The Second 50: Navigating a multi-stage life. The report highlights how radically different life after 50 will be from previous generations across 'five fundamentals' of work, wealth, family, health and wellbeing.

In this report we wanted to explore financial adviser views of client satisfaction across these same five areas. Figure 9 below reveals that:

- Wealth or finances is the area requiring most attention: One fifth of financial advisers said that their over-50 clients would highlight this as needing attention.
- Finances are followed closely by health. Aegon's Second 50 report showed that people aged 50-59 expect to spend almost a fifth of their later life in ill health, highlighting the need for planning around social care expenses as part of retirement planning.

Figure 9: Over-50 client satisfaction with life areas



Retirement advisers may wish to consider how they might extend the scope of their advice. Many are already moving away from focusing almost entirely on finances to offering a more holistic 'wellbeing' approach and we focus more on this in Chapter 3.

If you're interested in moving from a performance maximiser to a wellbeing maximiser, you can find out more on Aegon's financial wellbeing hub at aegon.co.uk/financial-wellbeing. Here you'll find in-depth research into financial wellbeing and a video series taking a closer look at moving towards a wellbeing driven approach – including the potential commercial success advisers are seeing in becoming wellbeing maximisers.

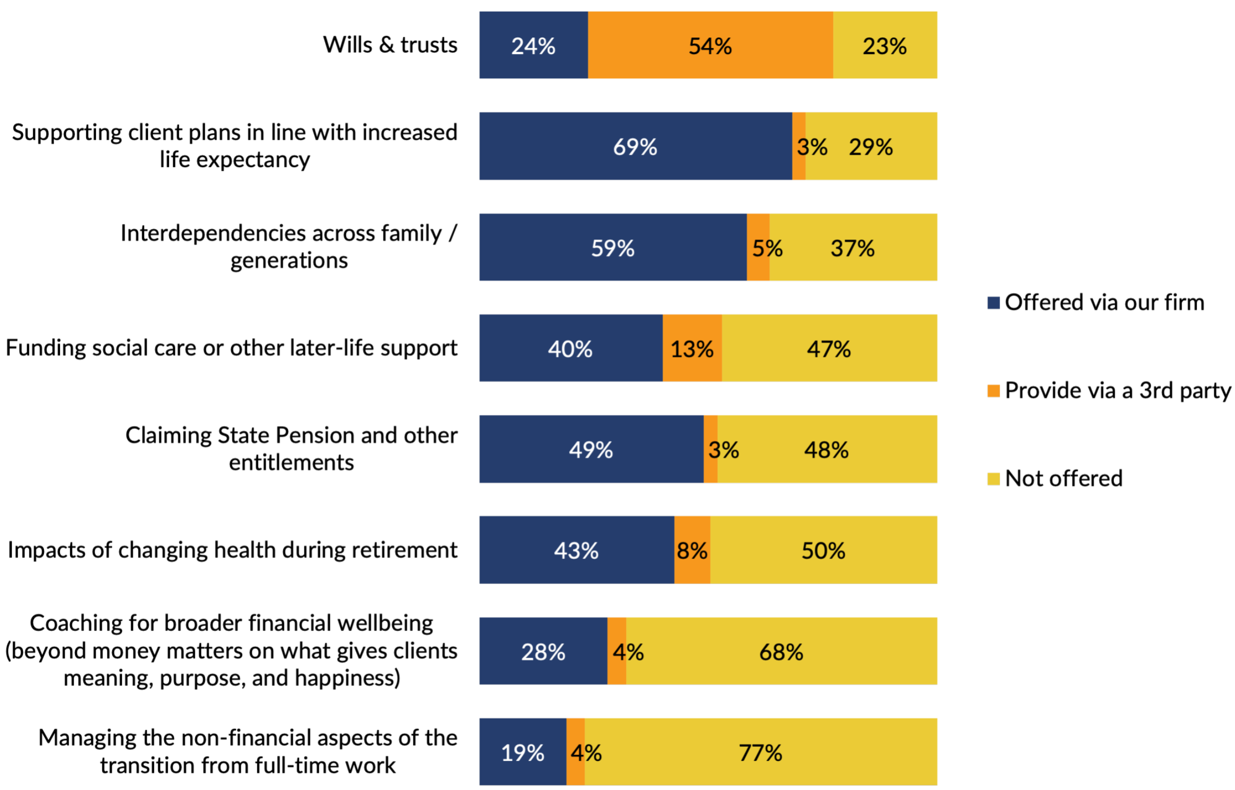
3. Retirement advice approach

3.1 Services offered

When we think of retirement advice, we understandably focus on the mechanics of how retirement savings are deployed to meet the client's income and wealth transfer objectives. But there are other areas where advisers add value to helping clients achieve their goals in retirement. The chart below shows the extent to which advisers are supporting clients beyond what might traditionally be considered core retirement planning.

The two best supported capabilities are wills and trusts, and supporting client plans in-line with increased life expectancy. Supporting wills and trusts is an obvious extension of retirement planning though most firms are outsourcing this.

Figure 10: Products offered to clients



Many financial advisers are looking to move the focus of their client relationships away from product and fund selection, leaning more towards supporting clients in achieving their hopes and goals in retirement. Given this, we were somewhat surprised to see that only a third of firms suggest they offer clients coaching around broader financial wellbeing, and a little less supporting non-financial aspects of moving into retirement. Looking back three years, we have seen a slight shift away from firms offering advice on these softer financial planning aspects.

One aspect which stands out sharply is the support advisers are giving clients to plan in line with increased life expectancy. Time and time again, research finds that people tend to underestimate their life expectancy so advisers have a key role in addressing that misconception and planning accordingly.

Clients still consider portfolio performance the most important component of financial advice, and advisers report that conversations around it have become more challenging over the past two years. We think client perceptions of financial advice are yet to catch up with the shift to more holistic financial planning. Clients are still most likely to initially seek, and therefore expect, advice for a financial rather than non-financial objective.

Despite the delay in the new funding deal, about half of financial advisers offer to support clients with funding social care. While this is not applicable to all clients, our question is whether the service is offered, not the proportion of clients who take-up that service. Again, given that this is a top three concern for retirement advice clients, there is an obvious opportunity here for financial advisers. We will watch with interest to see how plans for funding social care are explained in party manifestos for the next election.

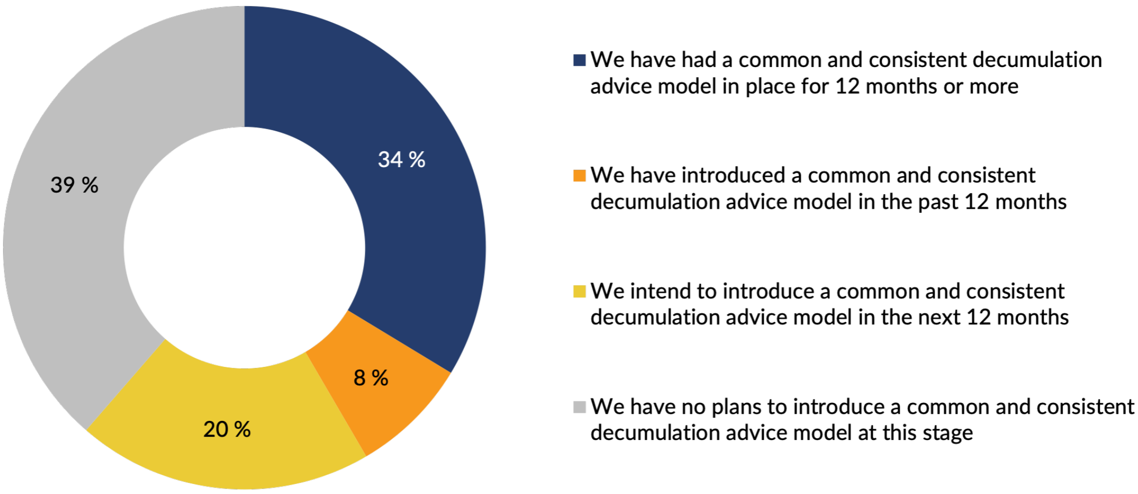
3.2 Use of a decumulation advice model

To help understand the approach firms take to delivering retirement advice and how formal the process is, we asked if respondents have a common and consistent decumulation advice model in place in the firm. In the past we have asked about centralised retirement propositions (CRPs). This year, we wanted to focus on the process rather than the label.

When we produced our first report in 2018, we found that 46% of advisers were using a CRP, with a further 13% expecting to introduce one in the following 12 months. In 2023, we found that the use of CRPs had not moved much further forward, with just over half (52%) of firms using one.

This year, using the new phraseology, we find that 42% of financial advisers already work in a firm with a common and consistent decumulation advice model with a further one fifth intending to introduce one in the next 12 months.

Figure 11: Usage of a decumulation advice model



The benefits of a decumulation advice model are that it provides a consistency of approach across an organisation and facilitates oversight and optimisation of the process to reduce risk and improve efficiency.

As with previous years, the main reason for not operating a decumulation advice model (or CRP) was that client needs are too diverse to be captured in a single process and advice is tailored for each client individually. This was the response from 97% of those that are not currently operating a decumulation advice model.

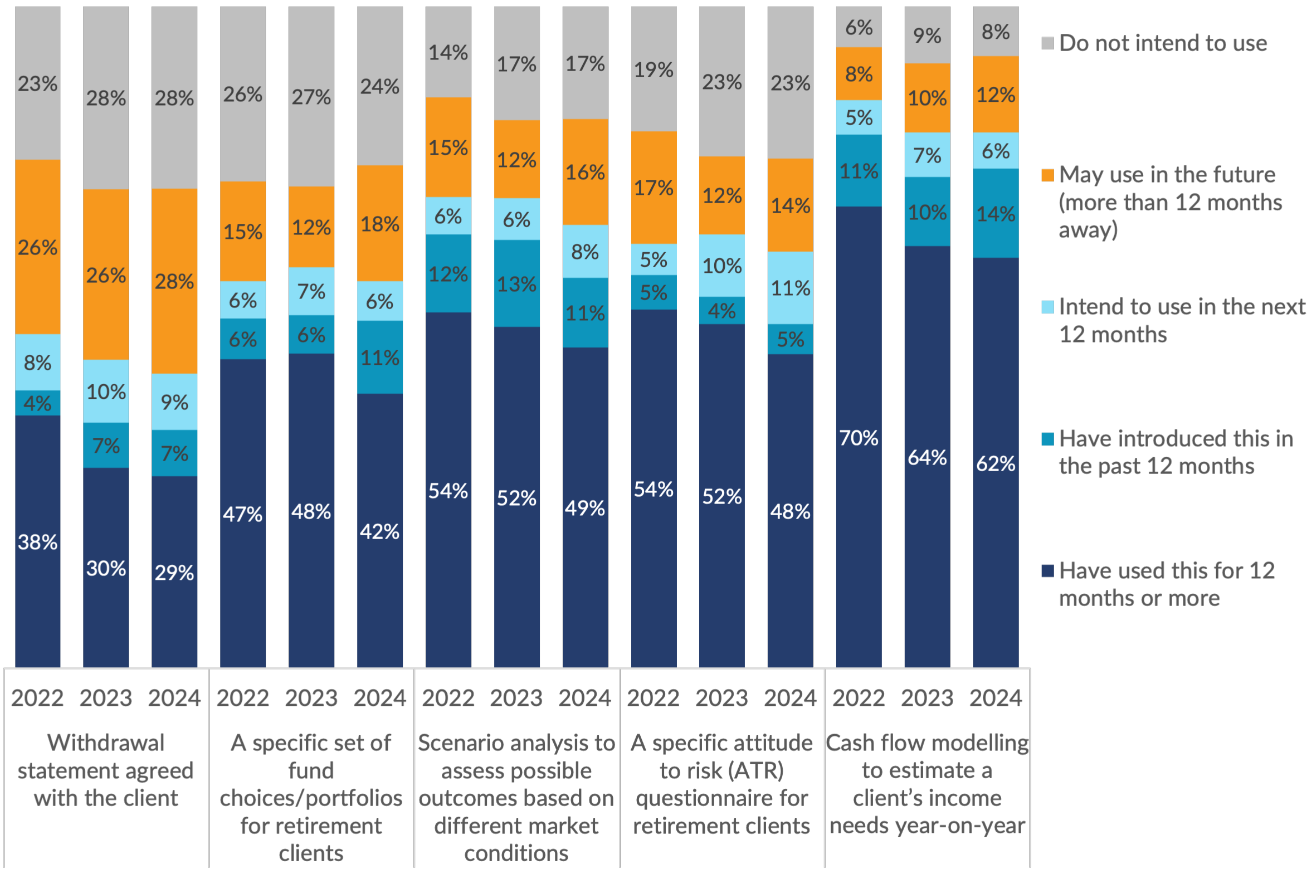
There is no doubt that client's retirement needs are diverse and demand tailoring of solutions, but this does not preclude introducing some level of consistency in terms of approach and products used. We expect that many firms have some consistency but simply choose not to formalise it. We wonder whether the forthcoming FCA thematic review on retirement income advice, following in the footsteps of Consumer Duty, might encourage some firms to think again.

3.3 Retirement advice techniques

We continue to track the use of specific techniques to manage retirement income within the advice process, as shown in Figure 12. Cashflow modelling is widely adopted, used by over 90% of financial advisers to estimate a client's income needs year-on-year. Given that clients' top concern in retirement is a fear of running out of money (Figure 8 above), it is perhaps surprising that use of cashflow modelling isn't universal for retirement clients.

Adoption of other tools and techniques has not changed significantly over the past 12 months, despite expectations stated in last year's survey. This is not unusual. We have found over the past few years that advisers haven't always been able to follow through on intentions to develop their advice processes, particularly when external factors, regulatory change and interest rate rises, are driving much of the activity in firms.

Figure 12: Techniques used to manage retirement income

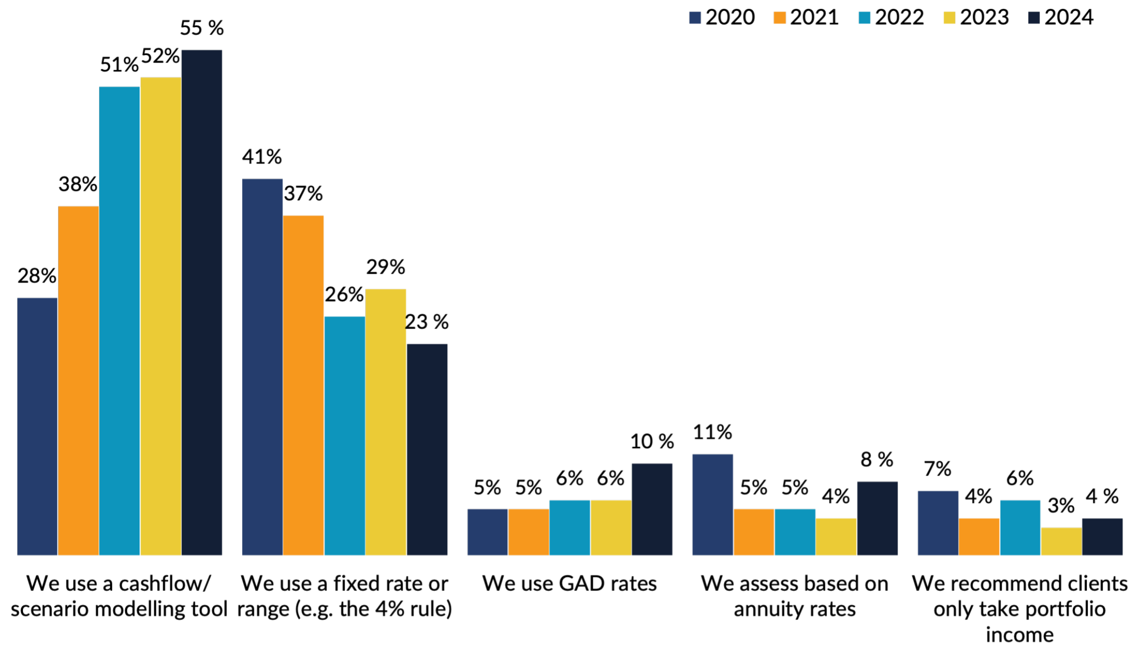


3.4 Determining sustainability of income

The proportion of advisers that use a cashflow or scenario modelling tool to determine a safe withdrawal rate for clients in retirement continues to climb while those relying on the infamous 4% rule continues to decline.

- 55% of financial advisers are using cashflow modelling or scenario modelling to determine a safe withdrawal rate, up from 28% five years ago.
- The share using the fixed rate or range (i.e. 4% rule) has nearly halved over the same period. Among those using a fixed rate, the average was 3.97%, showing the continued attachment for some to the 4% rule.

Figure 13: Techniques to determine a safe withdrawal rate



3.5 Optimising withdrawals across tax wrappers

Alongside the introduction of pension freedoms, the government changed the tax treatment of pension assets on death. In particular, it removed the penal 55% tax charge that applied on any remaining monies in drawdown arrangements and to pension pots that had not been accessed for those dying at or after age 75. Some saw this change as an extra tax-break for the wealthy. In practice, the application of such a penal tax charge would have been incongruous in a retirement market where drawdown has become the norm rather than the exception and with the political narrative of pension freedoms that people should be allowed to use their money as they see fit.

After the abolition of the Lifetime Allowance was announced in the Spring 2023 Budget, there were concerning proposals to reintroduce heavier tax charges where a beneficiary took death benefits as income. Fortunately, the Finance Act 2023 confirmed these are not being taken forward.

The upshot is that clients no longer face a heavy tax charge on dying with unused pension assets. Indeed, because pensions usually fall outside of a client's estate, passing on assets through pension vehicles can be more tax-efficient than leaving wealth in other forms. We were keen to see the extent to which advisers are taking advantage of this.

Figure 14: Impact of tax considerations around pensions use in retirement

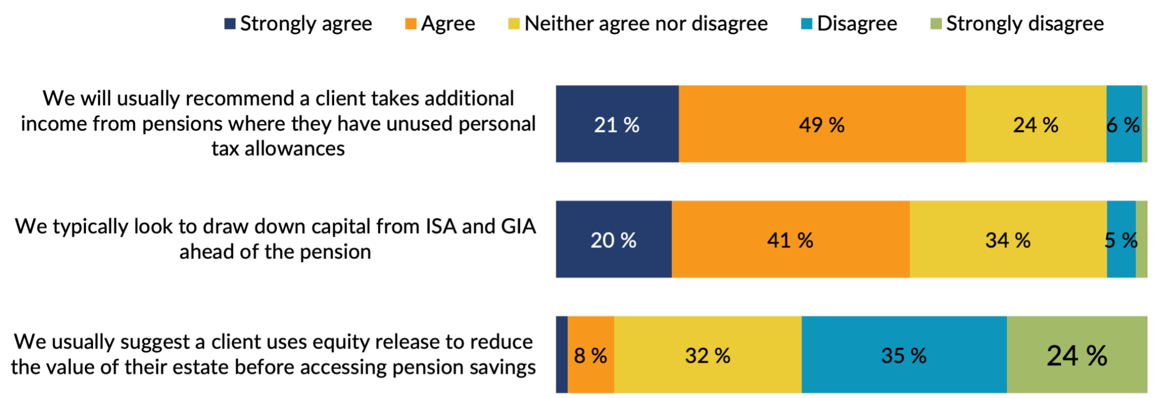
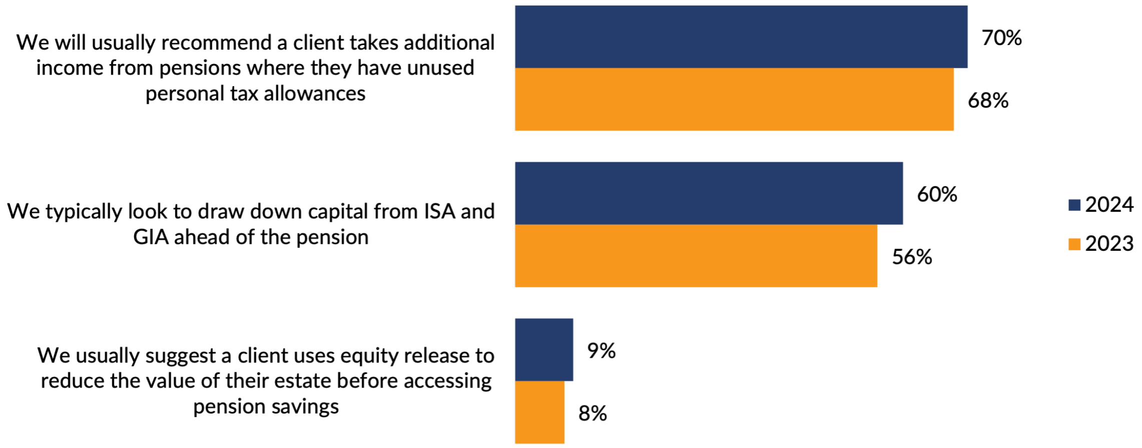


Figure 15: Impact of tax considerations around pensions use in retirement year on year (Total: Agree)



We found that the approach of leaving the pension until last when drawing down on retirement assets was typically used by 60% of advisers, with only 7% saying they disagree with doing this as a matter of course. This not only makes sense in terms of death benefits but may also help manage income tax, by allowing clients to supplement income from capital while working without adding to their taxable income.

Another example of how advisers are adding value through effective tax planning in retirement is where pension income can be taken tax-efficiently due to clients having unused personal allowance. We found a significant majority of advisers (70%) usually recommend this course of action to clients.

Some have suggested that the favourable treatment of pensions on death could lead to this being exploited and even that additional retirement assets could be released from housing equity to reduce overall inheritance tax. While this might make sense on paper, we found limited appetite for this amongst advisers, with only 8% saying this was something they usually suggest to clients. The sharp rise in interest rates over the last 2 years will have reduced the attraction of certain forms of equity release. We may not see any increase in this option until interest rates are far lower and there's confidence they will remain so.

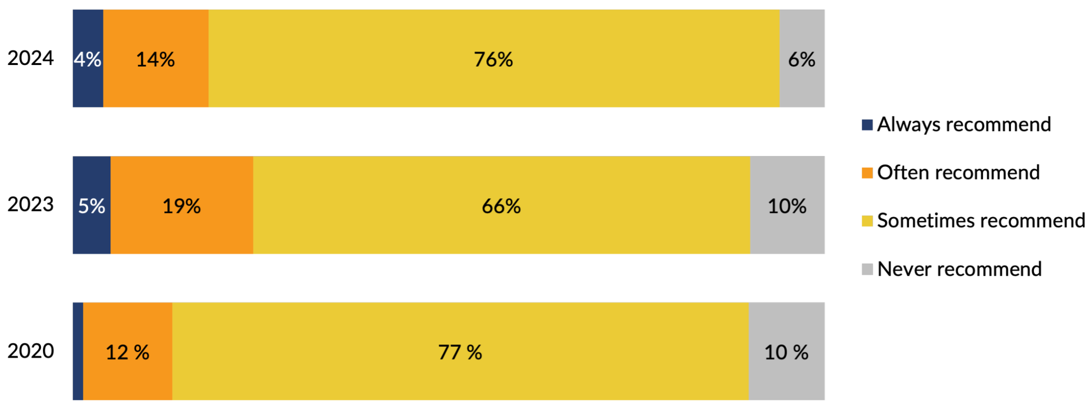
3.6 Use of guaranteed income products

Rising interest rates since December 2021 have had a profound impact on investment portfolios, as well as annuity rates. While UK annuity rates have fallen back below the highs of 2023, at the start of 2024, a healthy individual age 65 could get a level lifetime income of just over £6,700 per annum (from £100,000), whilst a healthy couple would get just over £6,400 per annum, both guaranteed for ten years. This is slightly up from one year ago and over 50% above the rates on offer in 2022[3].

Only 6% of financial advisers say they never recommend guaranteed income products to retirement advice clients. Most (76%) recommend them sometimes. The proportion that always or often recommend these products fell back slightly this year to 18% from 24% last year.

[3]*Source: MoneyHelper annuity comparison tool*

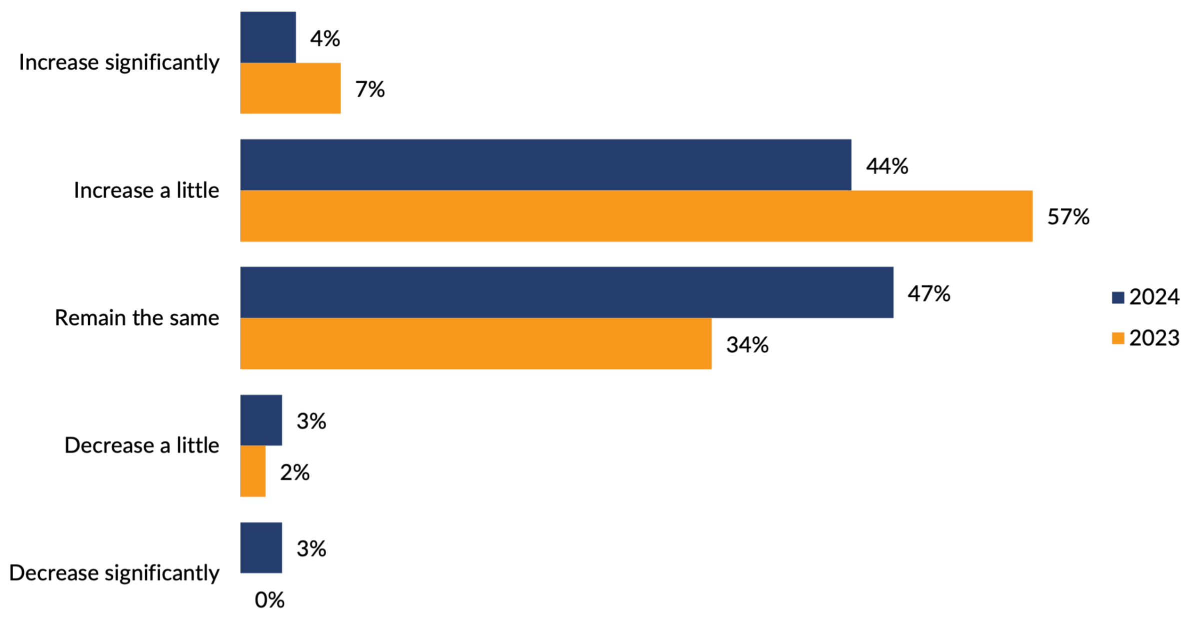
Figure 16: Recommendation of guaranteed income products



When we ask about expected use of guaranteed income products over the next three years, nearly half (47%) expect use to remain the same (Figure 17). Interest rates are expected to fall in 2024, which could adversely impact annuity rates and therefore their relative attractiveness, which is likely why future expectations now are less positive than a year ago around increasing use of such products.

That said, combining guaranteed income and drawdown could significantly improve overall retirement outcomes. We expect to see increasing use of this approach over the coming years, particularly as the cohort of defined benefit transferees who switched when interest rates were at their lowest start reaching retirement age.

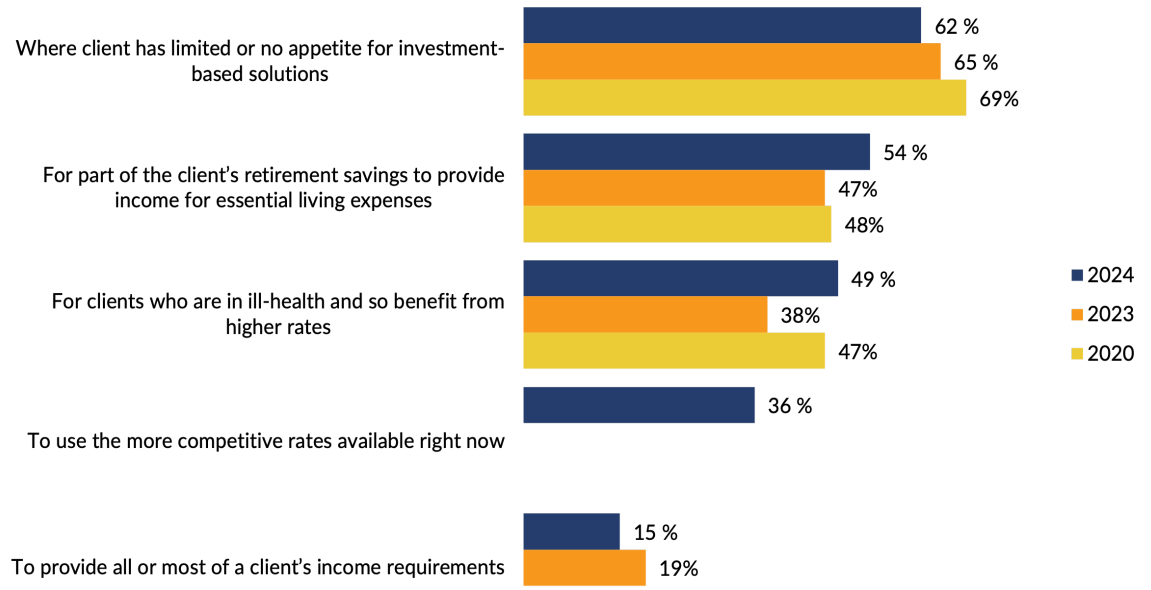
Figure 17: Change in guaranteed income over next three years



The chart below provides more insight to the instances in which annuities are recommended. They are, unsurprisingly, often used where clients have low appetite for investment risk. We added in the option around using more competitive rates available right now, and over a third of advisers (36%) responded positively to this. However, they are also being widely used to provide a base level of income, often determined by considering essential living expenses. Not only does this give clients certainty that they will be able to meet their basic needs, it also provides scope to take on greater investment risk with the balance, knowing that, even in the worst-case scenario, the client has income to fall back on.

We will continue to track use of annuities and to follow the impact, should rates start to fall back again.

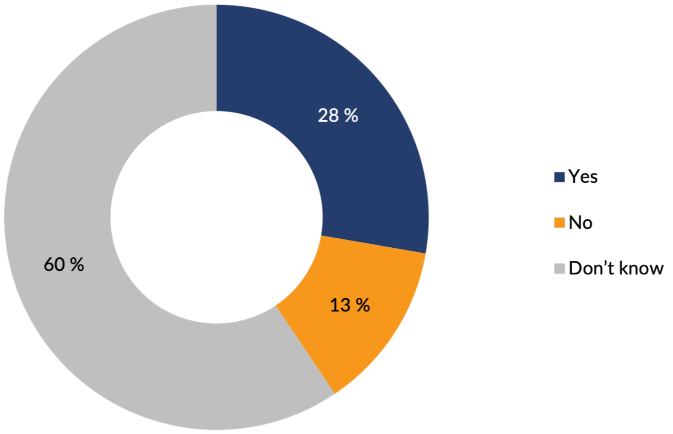
Figure 18: Common circumstances for recommending a guaranteed income product



While early days, we took the opportunity to ask financial advisers for their views on an emerging product, decumulation only collective defined contribution schemes. The Government is consulting on these as an extension of the 'whole of life' collective defined contribution vehicle introduced in the Pension Schemes Act 2021. Further information about these schemes can be found in this research briefing from the House of Commons Library.

The proposals would allow an individual to pay their retirement pot into a decumulation only CDC vehicle in return for a starting income with a target to increase this in line with inflation. However, there would be no guarantee of the amount of future increases. The actual yearly income would depend on overall scheme performance and in fact income could fall year on year. However, income would continue at some level for life, protecting against longevity risk. With more risky investment strategies and no guarantees, incomes are expected to be higher than inflation protected annuities, although there would be none of the flexibility of investment choice or income levels of income drawdown.

Figure 19: Suitability of a decumulation only collective defined contribution schemes



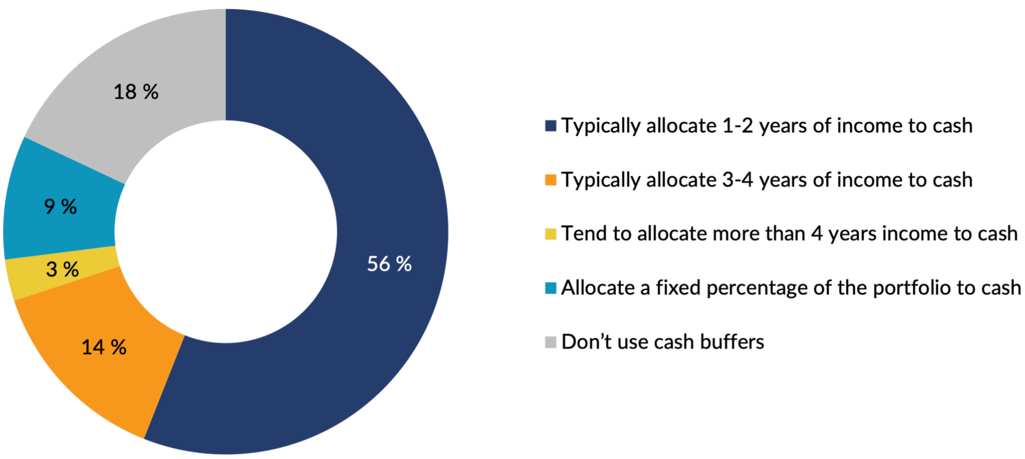
"The Government is very keen to encourage the development of collective defined contribution schemes, including exploring a decumulation only variation which would provide a third option for individuals to select, alongside annuity and income drawdown. This includes potentially requiring trust-based schemes to offer access to this option. Aegon recently undertook research with Aon into whether there might be consumer demand for such a product. In this research with NextWealth, we wanted to explore advisers' attitudes towards this potential future product. Perhaps not surprisingly, with no concrete detail, 60% of advisers did not have a view. However, 28% do see this as a possible future product, with 13% not supportive. As Government and industry thinking develops, it will be interesting to see how adviser attitudes change."

Steven Cameron, Public Affairs Director at Aegon

3.7 Use of cash and cash buffers

Cash buffers offer emotional security to clients who can weather market ups and downs without the need to crystallise a loss. Cash buffers are a core part of retirement income planning used by all but 18% of financial advisers in our survey. Most (56%) allocate 1-2 years of income to cash. We last asked this question in 2020 and results are almost identical across the two time periods. This suggests that rising rates and market volatility haven't shifted thinking on the amount to allocate to a cash buffer.

Figure 20: Use of cash buffers to support retirement income



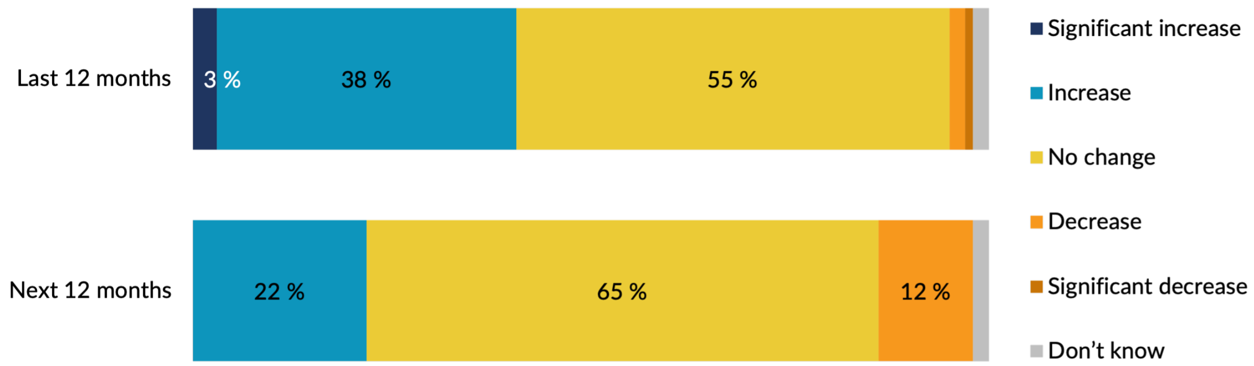
Rate rises have made cash a more appealing asset class. Financial advisers are increasingly being challenged about investment returns relative to cash rates. To understand the allocation to cash, beyond just thinking about cash buffer, we asked about the percentage of client portfolios allocated to cash and how that has changed over the past twelve months and how that is expected to change over the coming year.

- Financial advisers estimate that retirement advice clients have 12% of their portfolio allocated to cash.
- 43% of respondents say their retirement clients hold less than 10% in cash, 30% said they hold 10% of assets in cash, and 27% of respondents said they hold more than 10% in cash.
- More than half of financial advisers (55%) said that clients have not changed their allocation to cash in the past twelve months. 41% said that the allocation has increased.
- Looking ahead, we see a growing share that expect the allocation to cash to decrease.

Figure 21: Average cash allocation of retirement clients

Many of the financial advisers we speak to in our on-going research say that they are increasingly being challenged by clients who compare investment returns to cash rates. Many believe it is their responsibility to ensure clients make the right decisions for the long-term, which is often to stay the course and stay invested. It will be interesting to track the allocation to cash over time to see if it decreases along with rates.

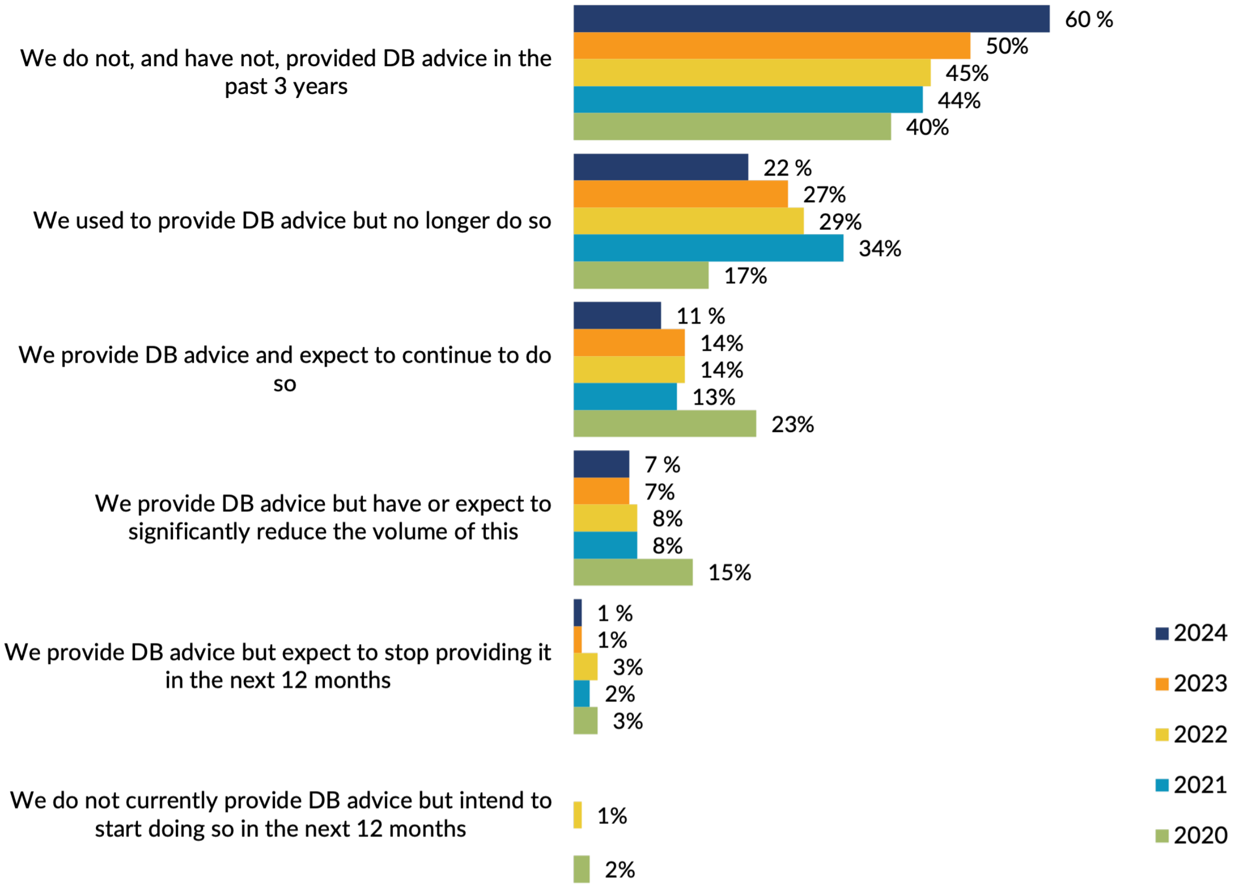
Figure 22: Change to cash allocation: last twelve months and next twelve months



3.8 Defined benefit transfer advice

Since we started publishing this report, the shift away from the provision of DB transfer advice has been swift and steady. In 2020, 41% of firms offered DB advice and in 2018, 23% expected to continue to do so.

Figure 23: Approach to providing Defined Benefit (DB) transfer advice



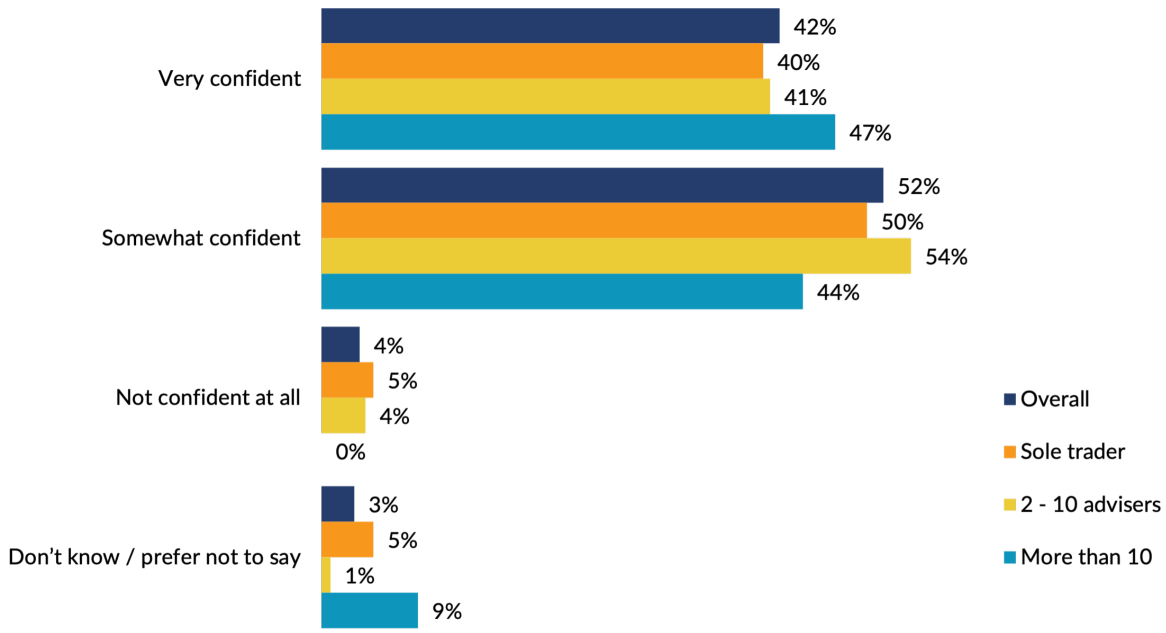
In our first report in 2018, 43% of firms were providing defined benefit transfer advice but this has fallen to 19% with 7% saying they intend to stop or significantly reduce the volume of this. The changes that the FCA has introduced over recent years together with the business risk of undertaking this advice have been key contributors to the reduction in supply. With interest rates having risen sharply, it seems likely demand will also wane as transfer values have fallen. This is because the higher the interest rate, the lower is the 'cash equivalent' of a given defined benefit pension.

4. Retirement advice and the Consumer Duty

With the Consumer Duty coming into effect in the middle of last year, we wanted to understand the extent to which advisers made any changes to their retirement advice models. We look at client segmentation and quantifying the value of advice.

Overall, 42% of financial advisers are 'very confident' in their ability to demonstrate value for money and a further 52% are 'somewhat confident'. Financial advisers in larger firms were more likely to say they were unsure of their firm's ability to demonstrate value for money. In larger firms, often central staff will have led the thinking on adapting to allow for the Consumer Duty.

Figure 24: Confidence in firm's ability to demonstrate value for money



4.1 Foreseeable harms in retirement

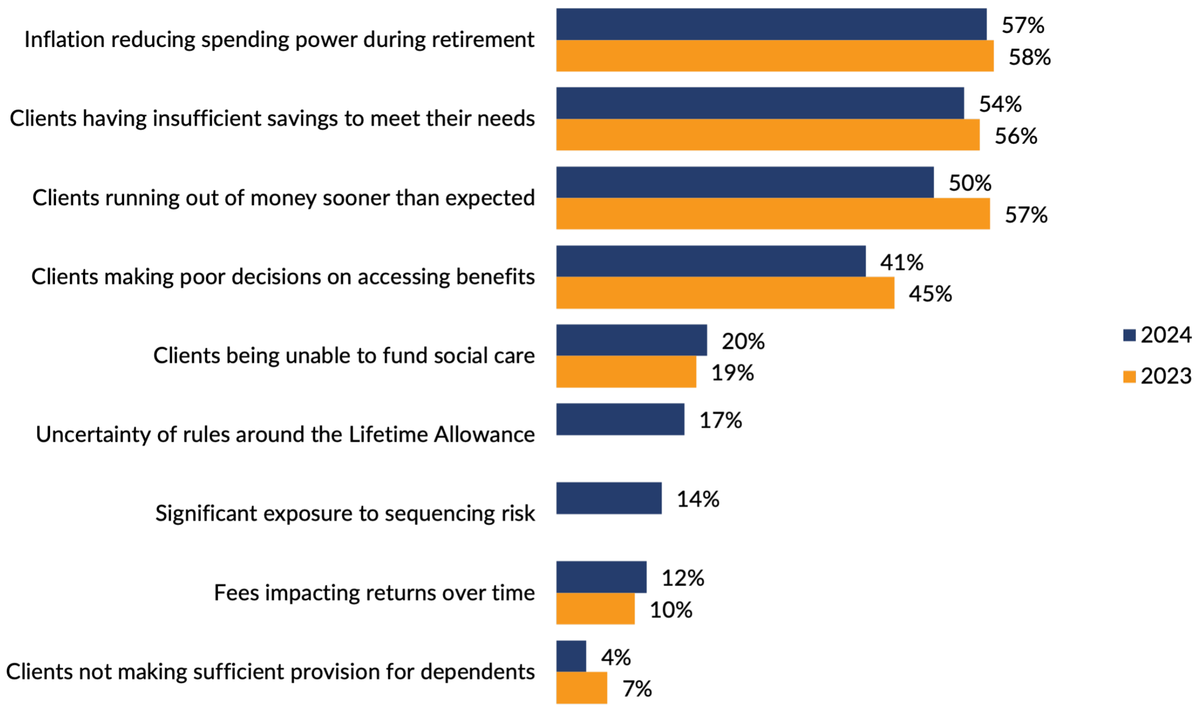
Retirement planning is arguably the most complex area of financial planning. As well as the technical complexity of pension and tax rules and decisions that can often not be undone, advisers must deal with uncertainties related to income requirements, inflation, investment returns and even how long clients will live. Given this, it's not hard to see where there might be potential future harms to retirement clients.

We asked financial advisers to select three of the most significant foreseeable harms facing clients in retirement. Figure 25 shows results comparing responses in 2023 and 2024. Three stood out from the list:

- Inflation reducing spending power during retirement.
- Clients having insufficient savings to meet their needs.
- Running out of money sooner than expected.

Close behind this came the risk of clients making poor decisions on accessing benefits.

Figure 25: Most significant foreseeable harms facing clients in retirement



A new option this year, 'uncertainty of rules around the Lifetime Allowance', comes in at sixth on the list. The rule changes and uncertainty of whether they will stay in place after the next general election make it particularly difficult for those offering planning advice to those affected.

The FCA rules require advisers to avoid causing foreseeable harm. Advisers will likely have limited ability to remedy clients having insufficient savings, particularly if they are only engaged when the client is close to retirement. However, ensuring clients don't run out of money and avoiding poor benefit decisions are central to what an adviser delivers for retirement clients and where they can add significant value compared to a client managing their own retirement.

The impact of inflation is a challenging one. Advisers will clearly be able to help clients identify how they can reduce this risk but the cost of doing this with certainty can often be overly expensive.

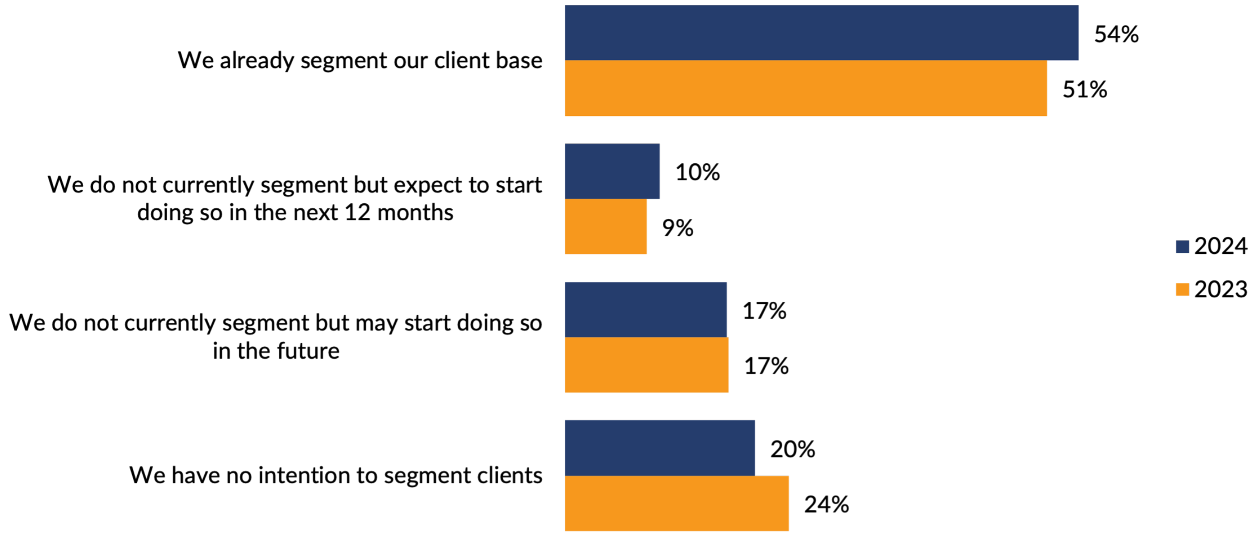
We asked financial advisers if there were other foreseeable harms that we had not covered in the above list. While the numbers are relatively low, they relate to the risk to end-clients of not getting advice due to cost or availability.

Foreseeable harm	Proportion of respondents	Example comments
Impact of regulation	10%	*"The level of regulation excluding clients from receiving advice."*
Weak markets and cost of living	8%	*"Continued poor investment returns."* *"Market has affected drawdown clients especially those taking an income regularly."*
Lack of access to financial advice	8%	*"Clients can't find or can't afford financial advice."*
Political uncertainty and instability driving policy changes	7%	*"Political and regulatory uncertainty...i.e. Politicians inability to stop tinkering and moving the goalposts, or take longer term and stable decisions, further undermining client confidence when planning."*

4.2 Client segmentation

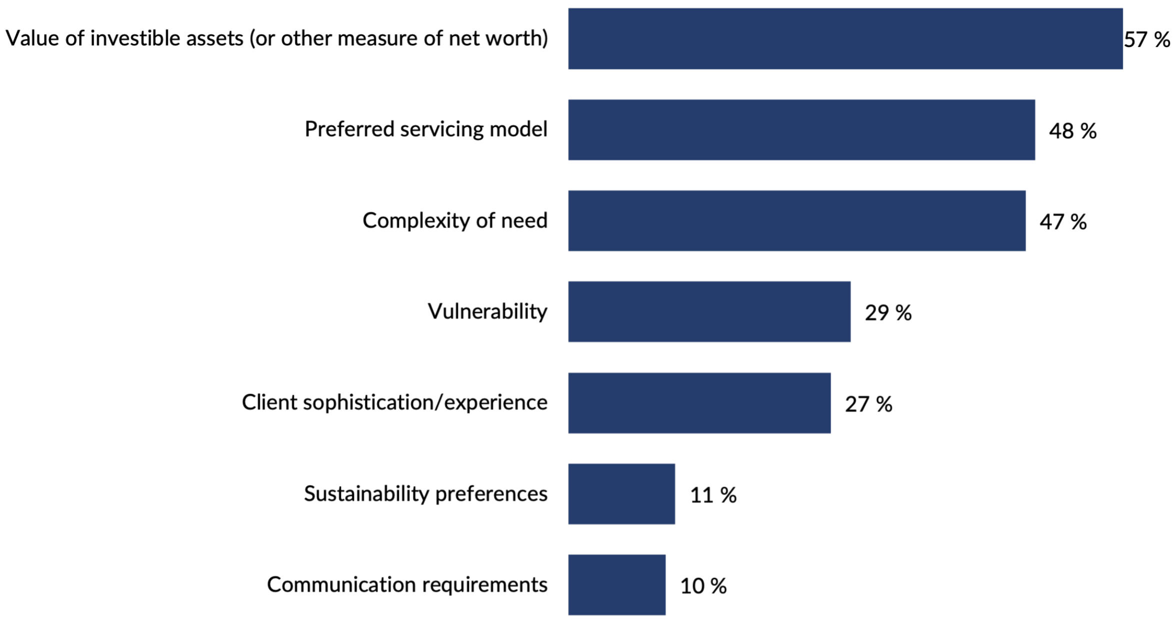
Client segmentation has been a hot topic for advisers for many years, with the Consumer Duty's focus on target markets adding to this. On paper, it makes sense but in practice it can be difficult to implement and deliver, particularly in an area like retirement advice where client needs are so varied.

Figure 26: Approach to client segmentation



We found that just over half (54%) of financial advisers segment their client-base with a further 10% saying they expect to start doing this in 2024.

Figure 27: Types of segmentation used for clients



The value of clients' investable assets is one of the most popular bases for segmentation. It makes sense that advisers will want to provide different services to clients with different levels of assets, but it is less clear that this will always be what clients need. Some wealthy clients may have relatively simple needs, while some clients with less to invest may have complex needs. It's reassuring that complexity of need is the third most popular basis for segmentation and we expect advisers will put more emphasis on this going forward.

Segmentation is often considered from the advice firm's perspective. The Consumer Duty makes it clear that advice firms also need to consider client needs and preferences. For example, some may only want or need advice on specific issues rather than a holistic service. Similarly, some clients may not need or want regular contact or may be happier with online meetings rather than in person. 48% of advisers say that their segmentation already recognises the client's preferred servicing model and, again, we expect this to increase.

4.3 Clients with vulnerabilities

Nearly all (97%) financial advisers said they have at least some clients that are categorised as vulnerable. This stands in sharp contrast to other areas of wealth management. In November 2023, the FCA sent a Dear CEO letter to stockbrokers and wealth managers that called out such firms for a failure to identify clients with vulnerabilities. The letter said that 49% of portfolio managers and 69% of stockbrokers identified no vulnerable consumers.

Figure 28: Proportion of adviser's retirement clients that are vulnerable

Overall, financial advisers said that about 1 in 6 of their retirement clients is vulnerable. The proportion is slightly higher for advisers in larger firms.

The FCA has said that most people will have a vulnerability at some point in their lifetime, but that doesn't mean that most people will have a vulnerability at any one point in time. This is clearly an area where the FCA has an on-going interest and wants to ensure that all forms of vulnerability are being identified, recorded and acted upon. We expect over time, given the FCA's on-going focus, that advisers will define more and more clients as vulnerable. We will look to continue to track this over time.

Identifying clients as vulnerable is the first step. Supporting those clients effectively is the next critical step. Our research suggests that financial advisers are confident across a range of aspects in supporting clients with vulnerabilities, making information easier to understand, tailoring the service and assessing specific needs.

About half of financial advisers say they are 'very confident' on most factors we assessed for supporting such clients. The other half were 'somewhat confident'.

Taken together we think this is a strong picture of the ability of financial advisers to identify and support clients with characteristics of vulnerability.

[4] *https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-fca-expectations-wealth-management-stockbroking-firms.pdf*

5. Looking ahead

5.1 Hopes for next government

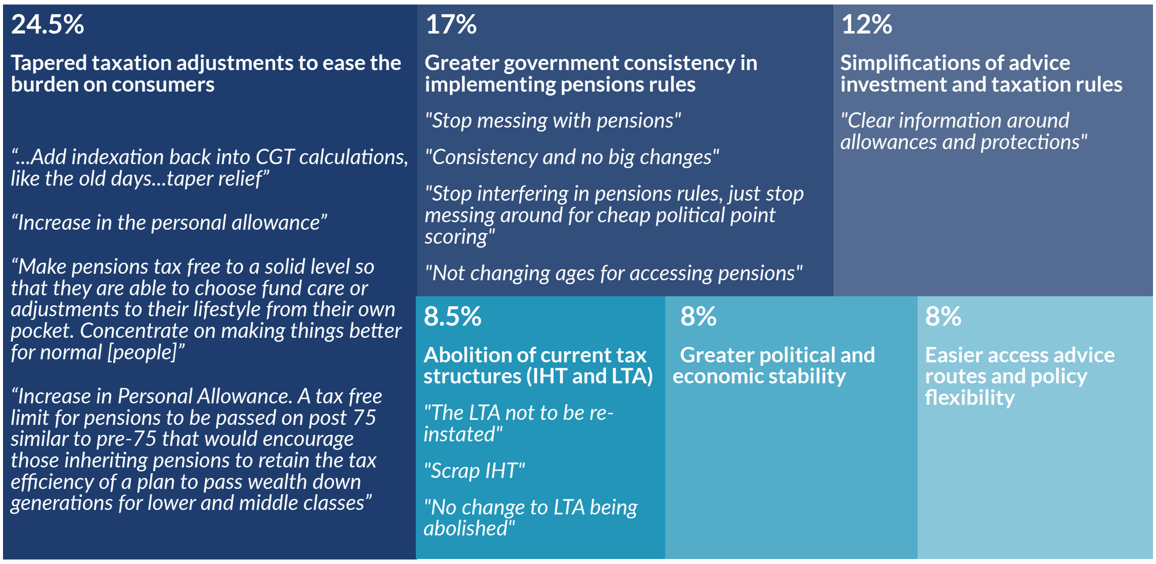
With a general election on the horizon, we asked advisers what they would most like to see for the benefit of their retirement clients from whoever wins office. We have categorised these suggestions in Figure 29.

'Reform' is the overarching sentiment of respondents - nuanced around four areas:

- Simplification of retirement, investment and taxation rules (12%)
- Abolition of current tax structures (namely IHT and LTA: 8.5%)
- Achieving greater certainty through more consistent approach by government in implementing and overseeing pensions rules, including death benefits and LTA (17%)
- Reforms to ease the tax burden on consumers through e.g. tiered taxation, tax reductions for the less wealthy, increased income tax thresholds or increases to the state pension (24.5%).

Other suggestions include working to instil a stronger sense of confidence in the government's approach to retirement planning through increased political consistency and economic stability (8.5%) and encouraging a deeper level of engagement with retirement investments and savings through easier access advice routes and policy flexibility (8%).

Figure 29: What advisers want from whoever wins the next general election



5.2 Retirement advice business concerns and challenges

We asked advisers what they view as their biggest concerns in relation to their retirement business over the next two, three and five-year periods.

Below, in Figure 30 we provide a breakdown of adviser sentiment over the three time periods. Figure 30.1 shows that market and regulatory challenges dominate the two year period. Looking further ahead (Figure 30.3), business growth and succession planning concerns coming to the fore. The analysis clearly illustrates the shift from shorter-term concerns to longer-term challenges to retirement advice businesses.

Figure 30: Adviser concerns and challenges over the next 2/3/5 years

Figure 30.1. Two years:

"Reduced ongoing fees"

"Stocked market volatility"

"Slow economic recovery/interest rates remaining high for a longer period"

"Changes in regulations, increase in costs and complexity"

"Change in tax rules"

"Regulation changes using the retrospective scope yet again!"

"Market risk due to geopolitical uncertainty"

"Geopolitical uncertainty affecting markets"

Figure 30.2. Three years:

"Volatility in markets"

"Increasing costs"

"Market returns, managing client expectations"

"Regulation changes using the retrospective scope yet again!"

"Consumer Duty"

"Changes to regulations"

"Political change"

"Uncertainty re future government policy on pensions"

"New government

"Clients drawing too much from pensions"

"Advice gap widening with higher costs of servicing"

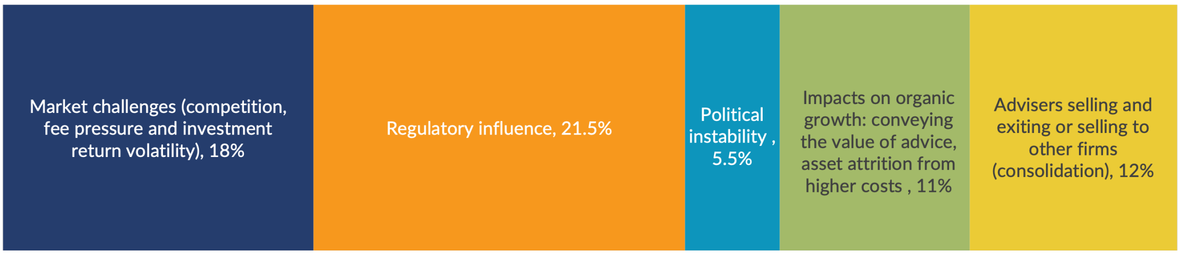
"New government"

"When to retire"

"Retiring advisers"

"Business sale"

Figure 30.3. Five years:



"High interest rates" *"Inflation"* *"Stock markets/ world turmoil"*	*"Further regulation"* *"UK raises State Pension age to 70 or higher"*	*"Lack of confidence in government"* *"Political change"* *"Uncertainty re" future government policy on pensions"*	*"Unable to take on new clients cost effectively/ profitably with £300,000* *"Lack of retirement planning with the next generation"* *"Wealth erosion"* *"Retention of an ageing client base"*	*"I would like to be retired in the knowledge that my clients are still being looked after"* *"Finding someone to take over my business/clients"*

Looking ahead five years regulation and market turbulence remain the most prevalent concerns (21.5% and 18% citing these as concerns respectively) but they become far less dominant with a rise in concern over the impact of organic growth in business and succession planning.

- 11% (up from 8.5% over 3 years) express concerns about the health of the business, based on the ability to attract new clients and retain assets for an ageing client base.
- The potential for consumers to perceive less value in accessing financial advice may lead to attrition of assets and poor outcomes (6% up from 5% at the three-year period).
- Stagnation and attrition of the current/target client bank (ageing current clients combined with a lack of development of the next generation of wealth holders).
- 12.5% of advisers cite 'exiting' or retiring from the market as something that they are aiming for or that will affect their decision-making. This is double the number compared to the 3-year period.

> ***"Finding someone to take over my business/clients"***
>
> ***"I would like to be retired in the knowledge that my clients are still being looked after"***

One adviser referenced the impact that firms exiting may have on the shape of the industry:

> ***"Small firms being squeezed out by FCA/PI Insurers"***

Advisers play such a key role in supporting their clients look to the future, but are facing a changing landscape. These findings show their concerns over the future of the industry and the role they play within it. With so much change and uncertainty ahead, the earlier we start looking to the future the better.

Aegon provide a wide range of support to help you lead clients through the changing landscape, from research around Navigating the Second 50, to Financial Wellbeing. You can find out more information at aegon.co.uk/adviser.

Conclusion – Reflecting on five years of retirement advice research

As we reflect on the findings of this edition of our report on retirement advice, sponsored by Aegon, it's clear that retirement advice remains a cornerstone of financial planning. It helps clients achieve peace of mind and financial security and is a critical component to the business of financial planning. Let's take a moment to consider some key themes:

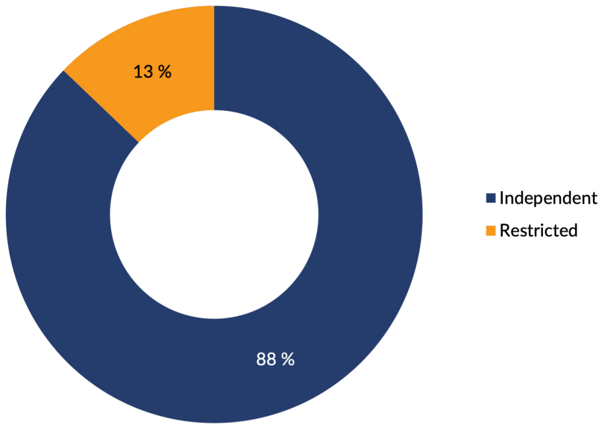
- We have learned that the foremost concern of retirement advice clients is the fear of running out of money. Their desire to maintain their lifestyle in retirement while leaving a legacy for the next generation underscores the profound importance of good financial planning advice.
- Financial advisers, the architects of these retirement plans, employ a holistic approach that extends far beyond investment strategies. They consider wills, trusts, social care funding, and the intricate web of ageing's financial implications.
- Yet, challenges loon on the horizon. Concerns about the affordability of financial advice for those who need it most weigh on the minds of many advisers. Negative publicity concerns further cloud the landscape, and the ever-shifting regulatory environment adds complexity and cost.

Looking forward, we anticipate ever changing developments. The removal of the lifetime allowance and evolving Government approaches to funding social care along with technology and product innovation mean the landscape for retirement advice will continue to shift and change. These changes will add layers of complexity to retirement advice. However, they also underscore the increasing value of expert advice in navigating this intricate terrain.

This report, kindly sponsored by Aegon, is a testament to the evolving landscape of retirement advice. It's a reminder that financial planning is about addressing the very real concerns and aspirations of our clients. As we move forward, our industry must continue to adapt and innovate to help clients thrive.

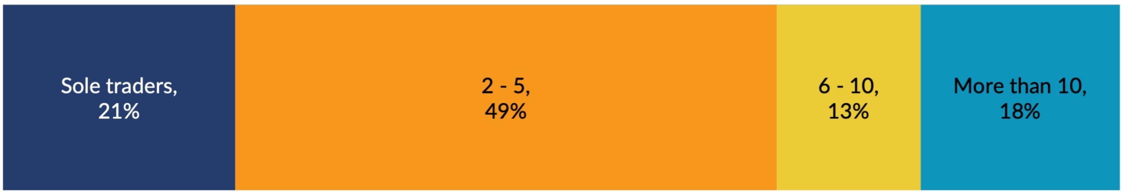
Respondent Profile

Firm status



Assets under firm's advice (AUA)

Client-facing financial advisers providing advice within firm



About Aegon

In the UK Aegon is a leading provider of pensions, investments and protection. Our purpose is to help our nearly four million customers achieve a lifetime of financial security.

Aegon's roots go back more than 175 years – to the first half of the nineteenth century. Since then, Aegon has grown into an international company, with businesses in the Americas, Europe and Asia. Today, Aegon is one of the world's leading financial services organisations, providing life insurance, pensions and asset management.

Contact emma.jack@Aegon.co.uk for media enquiries. For more information visit www.aegon.co.uk.

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