



## HOW DO I CHANGE THE WAY WE ADVISE 'AT RETIREMENT'?

Creating change in any business is not easy. At any one time there will no doubt be enough going on not to have to worry about how retirement advice is being given. However hopefully you will now understand the need for change, and indeed the opportunity that the retirement market presents, having also read our previous papers: 'Big Picture creates a perfect storm', and 'The case for change'.

In this paper we look at the practicalities of change and what a new retirement advice process might look like.

### Creating Change

Many texts have been written on change management, however these mainly focus upon the large organisation that can afford to employ programme managers and spend time in project meetings. In this short paper we will simply discuss how an average adviser firm can move from current practice to a new model. We will also make some suggestions about how this may look.

#### Having a Plan

So the first thing we should have is a plan, and remember that 'a good plan today is better than a perfect plan tomorrow.' So a simple way of looking at this may be as in *table 1*, right.

This tool is very simple to use. First describe the current situation and try and break this down into elements, so for example Item one may be as in *table 2*, right.

#### Create a Team

If you have a team of advisers and staff in the business it is good to engage as many in the project as possible in one way or another, or alternatively involve everyone by communicating with them, so everyone is up to date with what is going on.

Issue	Where are we now?	Where do we want to be?	How do we get there?
1.			
2.			
3.			
4.			

Table 1.

Issue	Where are we now?	Where do we want to be?	How do we get there?
1.	We have no process of identifying retiring clients 'just before retirement'	We want a process that automatically highlights clients 'just before retirement'	<ol style="list-style-type: none"> <li>1. Review our back office database.</li> <li>2. Produce an age profile of clients.</li> <li>3. Set up a simple 'pre-retirement' contact sheet</li> </ol>

Table 2.

If you are a small firm and don't have the resources then consider your virtual team. There will be several people you could bring in to help you, often for free. For example think about any product provider representatives, or business introducers who can support you through this process.

#### Define the Market

The Retirement market is very broad so it is also worth breaking this down and understanding which aspect of your proposition you are going to focus on. So a simple way that we can break down propositions is by categorising clients as follows:

→ Well before Retirement

→ Just Before Retirement

→ At Retirement

→ In Retirement

Each of these areas have different needs but are all linked to the retirement market. It is important to decide which element of the market you and your business will focus upon.

In this paper we are going to focus on 'Just Before' and 'At Retirement' needs.



See example *table 3*. And for how this may look when filled in, for example this might look like *table 4*.

**Client Research**

It is always worth asking the clients themselves what they think their key issues are. This research can be done formally, or informally. It may also be useful to have this research conducted independently.

*Formal research methods might include:* Questionnaires; telephone interviews; focus groups

*Informal methods might include:* Client discussions; Email circulars; Client suggestions

**The fundamentals and principles of advice**

Each business will have their own way of doing things; you may even call these your core values and principles. These should be noted and used as a test for any new proposition that you design.

In addition to this we suggest that you are mindful of the fundamentals of components of your client interactions. We have identified for example that within every client transaction there are three key activities:

- Education
- Advice
- Administration

How you handle each of these issues is important and it may be worth thinking through how this works today and how you may like to see this in the future.

**Key Stage needs**

For each category or client; i.e. 'Just Before', and 'At Retirement' it is worth identifying what you see as your client's, or indeed your prospective client's needs. It is worth noting that these may be different to particular professions or client categories. A simple method is to work with your project team to create a list what you regard as these key needs.

**The five stage advice process**

The Retirement Partnership has published on its web site a model five stage advice process for advisers to consider. We note that this is just a model and should be used to actively create a bespoke model for your business. The model will act to question your existing services, and method of handling each stage. We recommend that you review each stage by noting requirements under three headings:

- Things that should be discussed
- Material and documents that should be handed over
- Administrative tasks that should be completed

**Initial Contact:**

- When does an existing client begin the retirement advice process?
- How do you know which clients are 'in process'?
- What does a client receive at the beginning of the process?
- How do you avoid delivering a lot of work for no value?
- What does a new client receive at the beginning of the process?





**Reviewing Circumstances:**

- How do you help the client establish their retirement objectives and needs?
- What method do you use to record the client information?
- What information will you need?
- How long does this take to gather?
- What administration tasks need to be completed at the early stages?

**Issues, Options, & Risks:**

- How do you ensure that the client has a full and proper understanding of issues, options and risks?
- How is this handled for the transactional client?
- Is this a one off face to face discussion, or an on going process?

**Making Recommendations:**

- How are recommendations made?
- Is this working with the client to find a suitable solution, or a simple, and more direct recommendation?
- In what format are recommendations made?
- What data and information is used to justify recommendations?

**Completing the business:**

- How is the process administered?
- Who completes the work?
- How is the client kept informed?
- When does the client need income from?
- What temporary or alternative sources of income are available, in case of delay?

*Note: for further guidance please see our web site*

Key Issues Table	
Just before retirement	At retirement
1.	
2.	
3.	

Table 3.

Key Issues Table	
Just before retirement	At retirement
1. A wake up call to what will need to be considered and decisions that will be made.	1. Some basic numbers giving client an idea about what may be possible.
2. Information of what needs to be considered.	2. Confirmation of retirement objectives.
3. Help in working through the client's objectives in retirement.	3. Clear explanation of all the options.
4. Knowledge of what retirement funds are held & where.	4. Support in selecting the most appropriate solution(s).

Table 4.

**Establishing the client needs through the '12 Critical Factors'®**

The 12 critical factors (12CF) support the whole advice process, and allow the adviser to work with the client to review their circumstances, and establish their retirement objectives. They also provide the adviser with the opportunity to raise issues, options and risks with the client as discussions progress.



Left: The 12 Critical Factors



Using a tool such as '12CF' allows the adviser firm to provide consistency in experience and process. Clients could be provided with their own guide to the 12 Critical factors and be asked to consider questions before a meeting.

The clients views on these areas need to be heard, and discussed. Conclusions should be established, agreed and documented. These discussions will make the completion of a final suitability letter far easier.

The '12CF' break down into three key areas which will influence the final recommendations in different ways, which are:

**Environmental factors**

Much of the environmental factor work can be completed before the client interaction, and we recommend establishing a 'house view' on these issues to ensure consistency of message

**Personal factors**

The Clients personal factors need to be discussed. However this could also be handled by setting clients some homework, to prepare for a meeting, or discussion.

**Lifestyle factors**

How the client can live is going to be critical. The adviser proposition may limit the advice to what can be provided from the designated fund of retirement monies, so this sector is embedded in financial planning and adding real value to the client long term.

*A client profile, or retirement needs DNA can be established through the '12 Critical Factors'.*

**Creating a Client Profile**

Using a tool such as the '12CF', allows you to cover each factor with the client and establish their views, and opinions for each of these areas. This simple model also allows you to establish the issues, options and risks arising from each factor. You will finally be able to move on to product selection as a result.

**Selecting the Solutions**

Having established the client profile we are able to clearly state the client objectives, and therefore move into product selection.

<b>Economic</b>	We agree that the economy is in turmoil, and short term stock market returns are unpredictable. However this may represent a good opportunity to invest longer term monies.
<b>Inflation</b>	RPI has now hit 5% for the last 12 months, and has been a timely reminder of the corroding effect that this can have on the value of savings and retirement income. We have agreed that consideration of inflation hedging methods will be appropriate.
<b>Future Change</b>	We see no immediate chance of change to personal tax levels, or other retirement related legislation within the next two years.
<b>Age</b>	You are 60 years old. You have 15 years before you are required by legislation to purchase a 'lifetime annuity'. You are looking towards an active early retirement.
<b>Life Expectancy</b>	Your health is good. You have no illnesses, nor habits, such as smoking that may allow us to provide a higher than normal annuity income. You have though smoked, more than 10 years ago, and your parents died in their 70's.
<b>Attitude to Risk</b>	With regard to your pension income monies you have expressed a desire to maintain a cautious approach to any investment. We have discussed the key risks: Inflation; Investment; mortality. Your views are ...
<b>Personal Tax</b>	You expect to be a basic rate tax payer in retirement. However your spouse will have very little income and may therefore be a nil rate tax payer.
<b>Death Benefits</b>	Your spouse is alive, and healthy. As your spouse has no private pension, you see death benefits as a high priority.
<b>Future Income</b>	You do not expect to have any future earned income.
<b>Debt</b>	You will not be using debt in retirement
<b>Retirement Asset Pool</b>	We have only identified pension fund monies for your retirement income needs. These are detailed separately.
<b>Income and Capital Requirements</b>	You need £1200 per month to cover basic expenses, plus £800 per month for lifestyle needs. You would like to generate £10,000 every five years for property, and holidays.





In the **Five Stage Advice Process Model** this stage begins with the raising of **Issues Options & Risks**. These are covered in more detail in our paper on this subject. Our belief is that a professional adviser will consider all options available for the client and through a process of quantitative and qualitative research establish the most appropriate solution of combination of solutions for the client.

Clear client objectives allows the adviser to identify the core issues that need to be considered and then to potentially prioritise them with the client. See right for a simple example. Through this example we can see that a basic solution will be smoker rate enhanced annuity.

This may act as the benchmark and other solutions compared.

Fixed Term Annuity will provide the income security, but also keep options open for up to 10 years.

USP in this example may be too high risk considering the adviser view of investment returns and the clients attitude to risk. However the adviser may consider a USP with guarantee for a proportion of funds.

**Conclusions**

Creating change in any business is not easy. It will take time and need attention.

Establishing a simple plan to create the change will help, and working with a number of different people will inject new ideas and motivation into the project.

The new way of doing things has to be clear for all to follow. The benefits of the new process also should be clear to see, or else the old ways will soon come back.

Establishing a clear way of handling clients as the approach retirement will ensure that your client experience is consistent, and customers are treated fairly. Clear methods also demonstrate the value of your advice and services, and connection to remuneration.

A clear method also allows a business to promote their proposition to existing clients’ pre retirement, and

Profile & Objectives	Which means that:
Income & capital requirements are: £per annum, £lump sum every 5 years.	A Bench mark annuity can provide £per annum.
Other income will be earned during the five years.	The ability to take a lower income now and increase in five years will be an advantage.
The client has some mortgage outstanding.	We will need to take the PCLS/tax free cash.
The Retirement Asset Pool is 95% dominated by pension fund.	We should consider the PCLS for capital generation. The balance will provide lifetime income. This is all they have got!
The spouse has minimal private pension.	Spouses pension provision very important.
Clients are basic rate tax payers and possibly nil rate through age allowance.	We should be careful not to reduce age allowance if possible.
The clients understand the risk of investment, inflation, and longevity, and have a balanced view.	The client would like to protect against inflation, and understands how investment can impact on the funds.
The clients are M65 and F62 He is a smoker and in reasonable health. She is in good health.	Smoker rates must be considered. Temporary annuity should be considered. USP may be considered. It is likely that F will survive the Male, so long term protection required.
The client agrees with the adviser view on the economy, inflation, and the potential for change.	USP is only suitable with a guarantee underpin. Protection against inflation is required for the future.

potential new clients through professional connections.

The retirement market changes every week, with product developments, new entrants to the market, and simple rate changes, which means that the professional adviser has to change too – if only to keep up to date.

*More support on these issues can be found at [www.retirement-partnership.co.uk](http://www.retirement-partnership.co.uk) or contact us at [feedback@retirement-partnership.co.uk](mailto:feedback@retirement-partnership.co.uk)*

Address: PO Box 570, Winchester, SO23 3HP

The Retirement Partnership Ltd is a non regulated business. No liability is taken for the content of these papers. Advisers should always consult with their own compliance advisers before changing practices. Errors & Omissions are Excepted.

The Retirement Partnership Ltd provides support to Intermediaries in the retirement market. We are supported in this work by our sponsoring product providers: Living Time Ltd; The Hartford Group; and Lincoln Financial Group.

The Retirement Partnership Ltd fully supports the ‘Offer More Options’ Campaign launched and sponsored by Living Time Ltd. For more information, and to register your support, visit: [offermoreoptions.co.uk](http://offermoreoptions.co.uk)

