



An Interview with... MGM Advantage

Aston Goodey, Sales and Marketing director discusses the firm's new Flexible Income Annuity, his view of the market and of regulation with retirement income expert William Burrows and financial journalist John Lappin.

Words by John Lappin

Aston Goodey, Sales and Marketing director at MGM Advantage, believes the company has come up with a flexible income annuity solution that is ideal for mass affluent retirees.

The firm believes it has devised a product that is simple, transparent and will compare very favourably to the conventional annuity which is providing a smaller and smaller income, and the with-profits annuity which is opaque.

The product is the second launch since the firm's decision to reposition as a retirement specialist in 2008. This process involved rebranding the Worthing-based MGM Assurance as MGM Advantage and was accompanied by a launch into the enhanced annuity market. To date, the enhanced annuity has taken around ten per cent of that market, ranking the life office as the number four player.

THE PRODUCT TESTED

MGM Advantage says the product is an asset backed annuity, aimed at the mass market, including pots as low as £10,000. It provides a range of incomes, with a portion guaranteed, and the fund invested with a choice of three active and one passive manager as well as a money market fund. The income and

investment arrangements are reviewed and agreed every five years, although the customer can change their requirements at any time, and also transfer out to another annuity provider at any time.

The active funds are the JP Morgan Cautious Total Return, the Newton Balanced Managed and the Jupiter Merlin Growth with three passive options from Vanguard. "It is all about the potential for growth. They are all top performing funds, well regarded and IFAs like them.

We kept it simple. You have the choice of those three in the active sector, a cash fund from Insight and for passive management what better fund manager than Vanguard?" says Goodey.

Burrows asks whether the most appealing feature has been the guarantee of a minimum income, but Goodey says that is not what advisers and clients have been latching on to.

He says it is more to do with the choice of funds, the simplicity of the product, the fact that for advisers this makes it easy to explain, and the ease of producing a reasons-why letter online. He says that to date, around 50 per cent of quotations are made online.

"If I was a client give me three reasons to invest," asks Burrows.

Goodey says: "The income flexibility is one. You have different stages in retirement that require different lifestyle requirements. So we offer flexibility which means you can choose between 50% and 120% of the best conventional annuity on the market, and then you can change that level at any time.

"Also, people like the minimum income guarantee. They know there is a minimum that will be paid for the lifetime.

"And there is the mutuality bonus. We are a mutual. These customers are becoming members of the society, and get a share of the profits of the society without having to be in with-profits."

Burrows asks: "What is the risk that as a client your income will fall?"

Goodey says: "There is always that risk with asset backed annuities. We make it very explicit what your fund needs to do. So if you said: 'I want to take the same level of income that you get from the best conventional annuity on the market,' we would be able to tell you the required fund performance to sustain that income for the lifetime of the contract.

"If you say: 'I want to take a £10,000 income for the life of the contract,' we might say you can have that as long as your fund, let's say the Newton fund, makes five per cent or more."

"We fix that income for five years so it is good for planning. Clients know what they are going to get for five years. At the end of the five years, we look at what the underlying fund has done, what we said it needed to do and then take the two away from each other. And every year the annual statements make it very clear whether the fund is doing better or worse than what is required."

Goodey points out that the product also pays trail commission, which he says encourages an ongoing dialogue with the client.

OBSR independently vets the investments and if they have concerns about a change of fund manager for example and the prospects for performance, a new fund may be recommended that will be communicated to adviser and client.

"They would recommend a change to us and we would very likely suggest that alternative fund. Clients can stay with the existing fund or move. So the funds are always monitored and updated, giving added security for IFAs and consumers alike," says Goodey.

Burrows asks: "What feedback are you getting about how your product compares, say, with with-profits?"

Goodey says: *"With our product, people feel they know what they are getting and advisers can articulate the proposition. With with-profits it is hard to say what it does and you are beholden to actuarial discretion. With-profits is a damaged brand. I think people are put off by with-profits whether for endowments, pensions or annuities. It is one fund, it doesn't change, but what if the company's strategic direction changes?"*

Burrows asks if one of the appeals of the product is the option to purchase an annuity from another provider.

Goodey says: *"It is a sleep-easy one but I would be gobsmacked if anyone wanted to transfer away. We are not beholden to one fund. OBSR actively monitor our funds on a quarterly basis and may change them."*

HOW IS THE LAUNCH GOING?

Although it is early days, the firm says it has had a successful launch, with the first couple of recommendations from IFAs taking out the product for themselves. Goodey says the early signs are that the product is being recommended to clients across the income and age scales.

"We are seeing people with smaller fund sizes – £14,000 to £50,000, all the way up to a million – at different levels and at different ages. We are seeing people exiting drawdown, or using it as a rival to the conventional annuity and the with profits annuity."

The marketing campaign, something of a first for the IFA market, used Margo, an animated pink flamingo, in a bid to stand out from the crowd. The literature is as simple as possible and, says Goodey, aims for a combination of 'Janet and John' crossed with 'doing what it says on the tin'.

THE TYPICAL CLIENT

Goodey says the product is for people who would typically buy a conventional annuity with funds from £20,000 to £50,000 but want their money to work harder. Or it is also suitable for clients exiting Drawdown but who want to remain invested in the stockmarket. He says: *"The product is a good alternative to a with-profits annuity. Some with-profit funds are good but they are still with-profits and that in itself can be a problem for some people."*

He adds: *"A client in 1990 would have taken a conventional annuity from a £10,000 pot of about £1,500. For the same client today, it will give you an income of about £650."*

"I don't think you will hear a commentator today who will say that annuity rates are going to go up. In fact Solvency II suggests that they are going to go down. So we think they will fall ten or twenty per cent. Consumers are recognising they can't get as much as they thought, so they are looking around at the alternatives. With the average fund of around £27,000 the client has little alternative but a conventional annuity, or perhaps a with-profits

annuity. The other products in the alternative space tend to have minimum premiums of £50,000. We are offering something from £10,000 upwards."

THE CURRENT VIEW OF RISK IN THE RETIREMENT MARKET

Goodey says he likes to see the product as a case of taking 'more risk for less risk'.

There is, he says, far too much money going into conventional annuities, as much as £11bn or £12bn and most of this into level annuities.

"In real terms, people are guaranteeing their income is going to do down. The analogy is whether at retirement, with the income you take, you would happily accept that you will never get a pay rise."

"It is a mad thing to do but people do it. It is sold as a no risk proposition. People think if they get the best rate, it is job done, but if inflation hits ten per cent for example, people may well ask at that stage 'why didn't you tell me?'"

Burrows asks: "Does the IFA understand the risks their clients are taking? Are those risks being explained to the customer?"

Goodey says he believes the literature is a good as it can be in explaining the risks and highlights not just the annual and five-yearly communications but the fact that if the return is not delivering the target, there are trigger levels at which adviser and client are informed.

"If necessary, we will write to them saying when you took this out you needed 6 per cent: your fund has done 5 per cent, you may want to reduce your income. We write if you outperform or are tracking the target."

"If the funds fall twenty per cent, a letter is written to the IFA and the client. There is a further trigger at a further fall. There are controls in place."

POLICY DEVELOPMENTS AND THE RDR

Goodey does not expect the most pessimistic predictions surrounding falls in IFA numbers to prove accurate.

Smaller firms, he says, may merge but this should not hugely affect overall adviser numbers and the demand and need for advice will still be there. He does believe the RDR will boost retirement advice making it clearer what work an adviser does and what fee is appropriate for that advice.

He says: *"We will see the correct remuneration for the advice given. In terms of the products themselves, I don't think there will be much difference. The two per cent will come from the policy. Will that change much? I don't think so. Having advisers being explicit in their charges is a good thing. There is more effort to recommend asset backed products and an opportunity for advisers to get a better rate for that work."*

"What is relevant is that the adviser gets rewarded for the effort they have put in. I can't see a fairer system. That way the adviser will not lose out, so it will encourage advisers to look at the system more than they have done in the past."

To take account of changing remuneration structures, Goody says that product offers several commission patterns and pays trail.

Burrows asks: "Could the product have appeal in the consultant dominated corporate market for DC?"

Goodey says: *"What we need to do is make the case for asset backed annuities in the DC market. There is a massive piece of work to do there, an education piece. We need to make it clear who is responsible to the end consumer, if they are given the least number of options."*

The 75 rule may finally be removed by a Conservative government but Goodey does not see this as a significant development for the firm.

"There are a lot of column inches about the age 75 but very few people wait till 75

so deferring it five or ten years won't make a big difference," he says.

"People don't realise the value of the mortality cross subsidy. At 75 it is getting to around two per cent, so what you are saying is that at 75 your investments are having to work 2 per cent harder than if you are invested inside an annuity."

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