



**the lang cat**

# **POST RETIREMENT ADVICE AND PIES**

**MINDFUL OF INVESTING IN RETIREMENT 1<sup>ST</sup> MARCH 2016**

# AGENDA

- **PLATFORM SELECTION & SUITABILITY**
  - A quick update
- **THE PIE OF DESTINY**
  - Controlling the total cost of ownership
- **WHAT IS GOOD PRACTICE?**



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# PLATFORMS ONLY DO 4 THINGS

**BUY STUFF**

**HOLD IT**

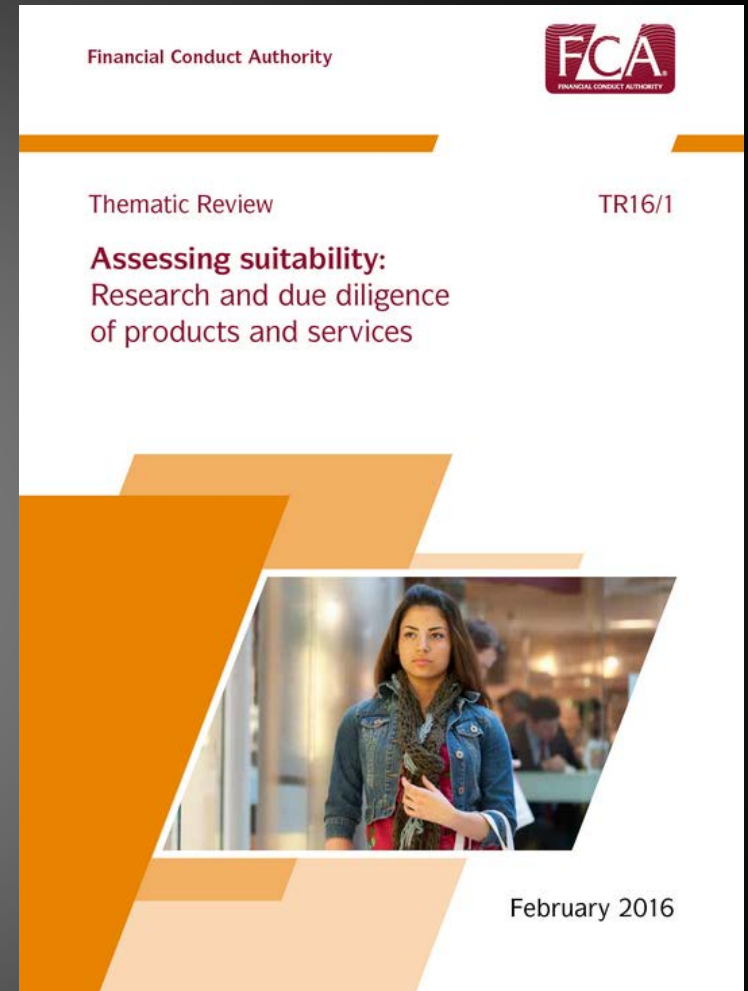
**SELL IT**

**REPORT IT**



# ASSESSING SUITABILITY

- 3 main areas of failure
  - Use of risk profiling tools
  - Costs
  - Research and due diligence
- Broadly all ok?
  - But....
- Status Quo bias?
- Culture of challenge?
- Regular review?



# SUITABILITY IN 3 STEPS

**CLIENT NEEDS**

BEATS

**ADVISER NEEDS**

BEATS

**PROVIDER NEEDS**



# SELECTING PLATFORMS

PRICE

CULTURAL FIT

ADVISER CHARGING

INVESTMENT RANGE

CIP INTEGRATION

FINANCIAL STRENGTH

BENCH DEPTH

SERVICE



# DUE DILIGENCE

**“HANGING ONTO A BAD BUY WILL  
NOT REDEEM THE PURCHASE”**

TERENCE CONRAN



# CONTROLLING COSTS



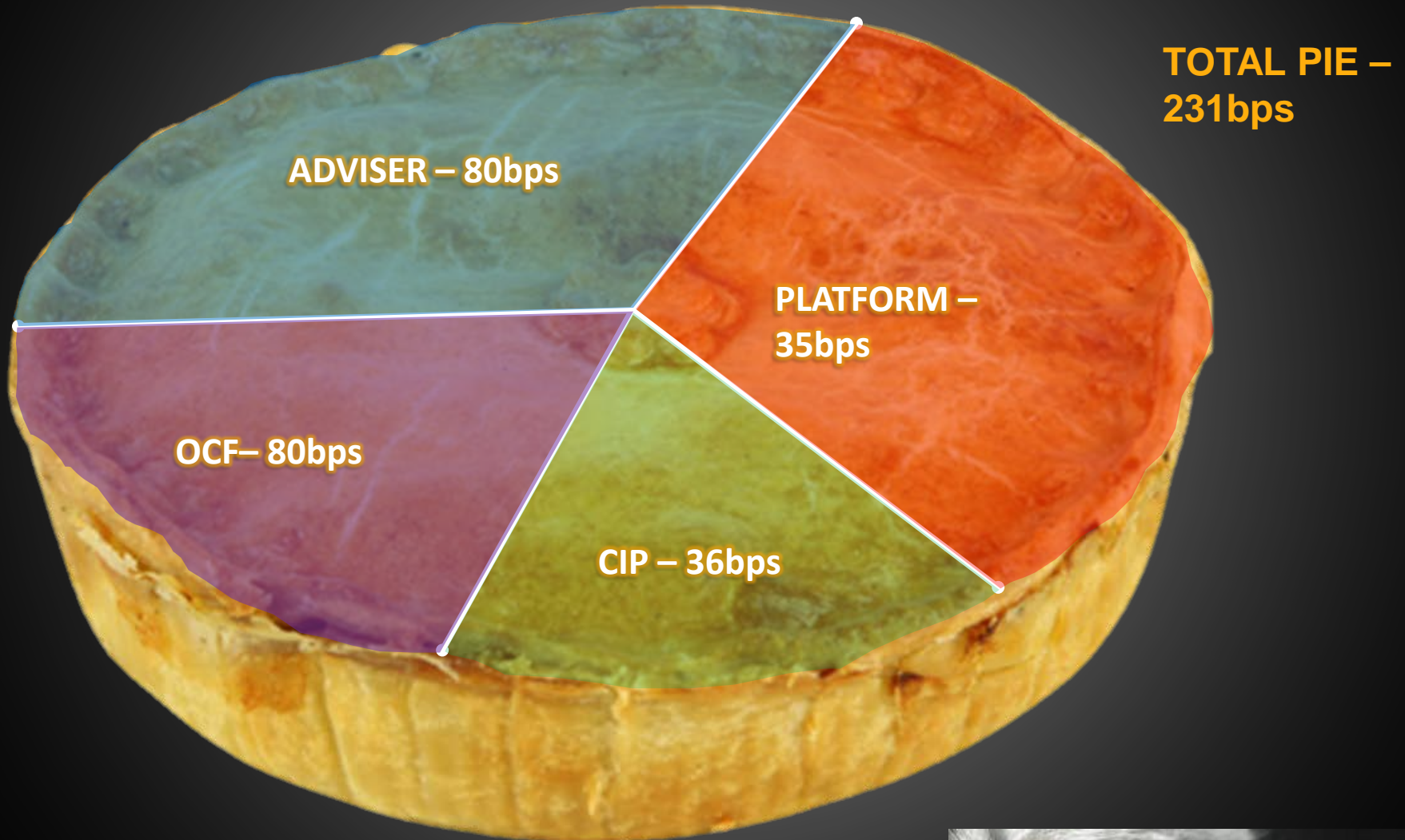
## COBS 6.1A.16 G

In order to meet its responsibilities under the *client's best interests rule* and *Principle 6* (Customers' interests), a *firm* should consider whether the *personal recommendation* is likely to be of value to the *retail client* when the total charges the *retail client* is likely to be required to pay are taken into account.





# THE PIE OF DESTINY



# COMPOUND INTEREST

	5 YEARS	10 YEARS	20 YEARS	30 YEARS
1%	£127,628	£162,889	£265,330	£432,194
1.5%	£124,618	£155,297	£241,171	£374,532
2%	£121,665	£148,024	£219,112	£324,340

ASSUMPTIONS  
£100k invested  
6% annual growth



# COMPOUND INTEREST

	5 YEARS	10 YEARS	20 YEARS	30 YEARS
1%	-	-	-	-
1.5%	-2.4%	-4.7%	-9.1%	-13.3%
2%	-4.7%	-9.1%	-17.4%	-25.0%

ASSUMPTIONS  
£100k invested  
6% annual growth

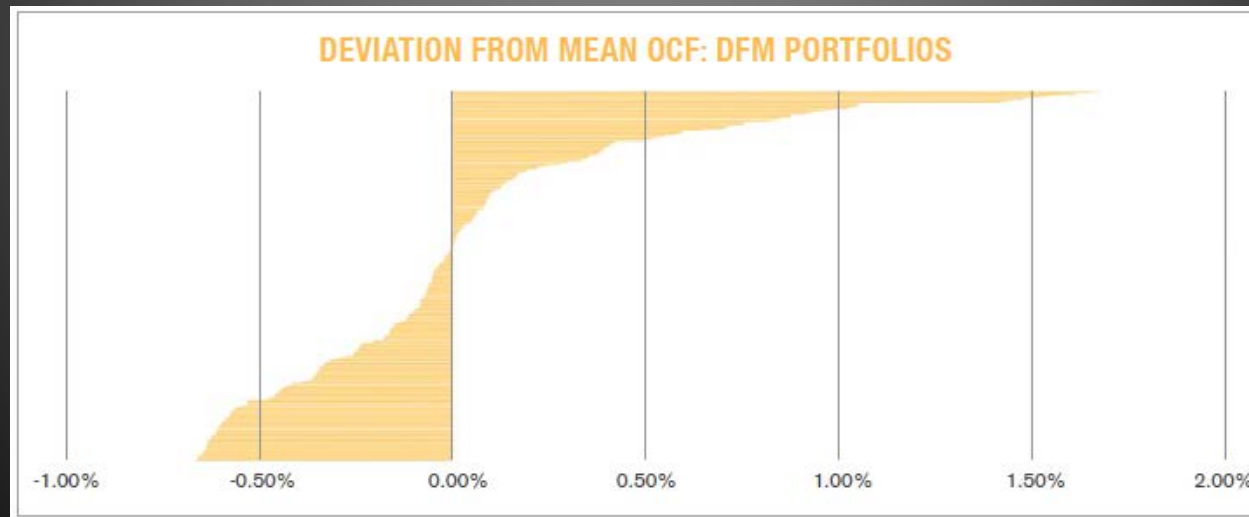
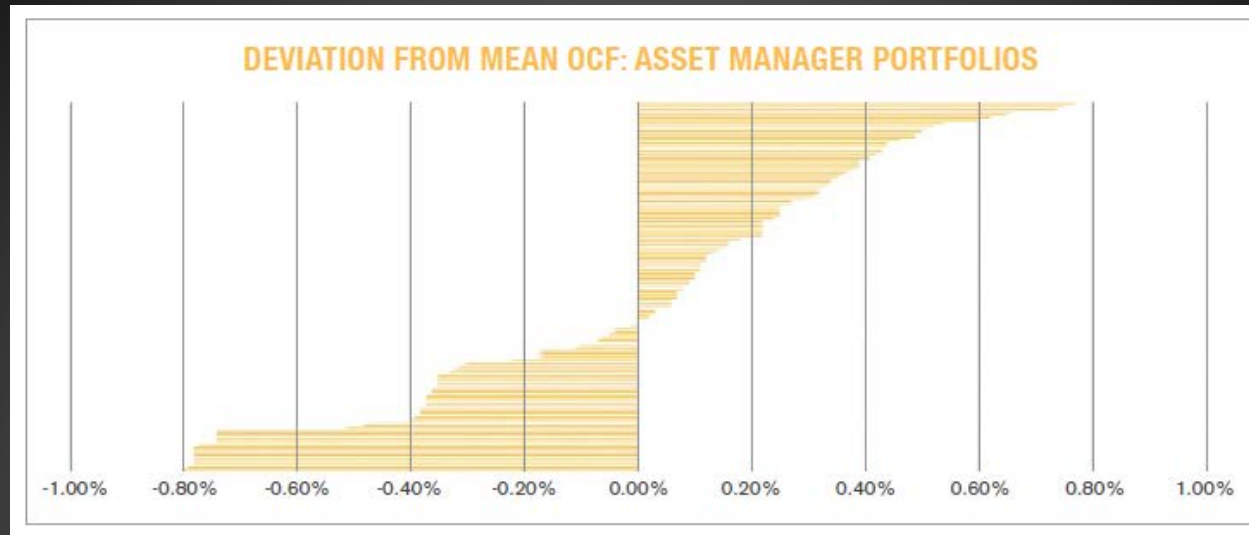


# PLATFORM CHARGE– ADVISED PENSION

Portfolio size	£20,000	£50,000	£75,000	£100,000	£200,000	£500,000	£1,000,000	£1,500,000	£2,000,000	£5,000,000
Aegon Retirement Choices (ARC)	0.60%	0.58%	0.55%	0.54%	0.49%	0.24%	0.12%	0.08%	0.06%	0.02%
AJ Bell	1.00%	0.62%	0.54%	0.46%	0.33%	0.21%	0.20%	0.19%	0.16%	0.10%
Alliance Trust Savings	1.56%	0.62%	0.41%	0.31%	0.16%	0.06%	0.03%	0.02%	0.02%	0.01%
Alliance Trust Savings (IFO Option)	1.38%	0.55%	0.37%	0.28%	0.14%	0.06%	0.03%	0.02%	0.01%	0.01%
Ascentric	1.83%	0.82%	0.62%	0.53%	0.39%	0.31%	0.28%	0.22%	0.19%	0.14%
Avalon (fixed)	3.00%	1.20%	0.80%	0.60%	0.30%	0.12%	0.06%	0.04%	0.03%	0.01%
Avalon (%)	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Aviva	0.40%	0.38%	0.37%	0.36%	0.36%	0.28%	0.22%	0.19%	0.18%	0.16%
AXA Elevate	0.64%	0.44%	0.40%	0.37%	0.34%	0.29%	0.25%	0.25%	0.25%	0.10%
Cofunds	0.29%	0.29%	0.29%	0.29%	0.27%	0.25%	0.23%	0.20%	0.19%	0.17%
FundsNetwork	0.48%	0.34%	0.31%	0.30%	0.27%	0.26%	0.25%	0.25%	0.25%	0.25%
James Hay Modular iPlan	1.16%	0.57%	0.44%	0.38%	0.18%	0.18%	0.16%	0.13%	0.11%	0.07%
Novia	0.50%	0.50%	0.50%	0.50%	0.50%	0.45%	0.35%	0.28%	0.25%	0.19%
Nucleus	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.30%	0.25%	0.22%	0.18%
Parmenion	0.30%	0.30%	0.30%	0.30%	0.30%	0.25%	0.20%	0.15%	0.15%	0.15%
Skandia	0.50%	0.43%	0.40%	0.39%	0.34%	0.32%	0.28%	0.24%	0.22%	0.18%
Standard Life Wrap	0.55%	0.55%	0.55%	0.55%	0.52%	0.48%	0.42%	0.36%	0.33%	0.28%
Standard Life Wrap (Core)	0.45%	0.45%	0.45%	0.45%	0.42%	0.38%	0.32%	0.26%	0.23%	0.18%
Transact	0.90%	0.66%	0.57%	0.51%	0.42%	0.34%	0.28%	0.23%	0.19%	0.12%
True Potential	0.90%	0.60%	0.53%	0.50%	0.45%	0.42%	0.41%	0.41%	0.40%	0.40%
Wealthtime	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.25%	0.20%	0.17%	0.13%
Zurich ZIP	0.73%	0.50%	0.45%	0.42%	0.36%	0.31%	0.29%	0.27%	0.25%	0.23%

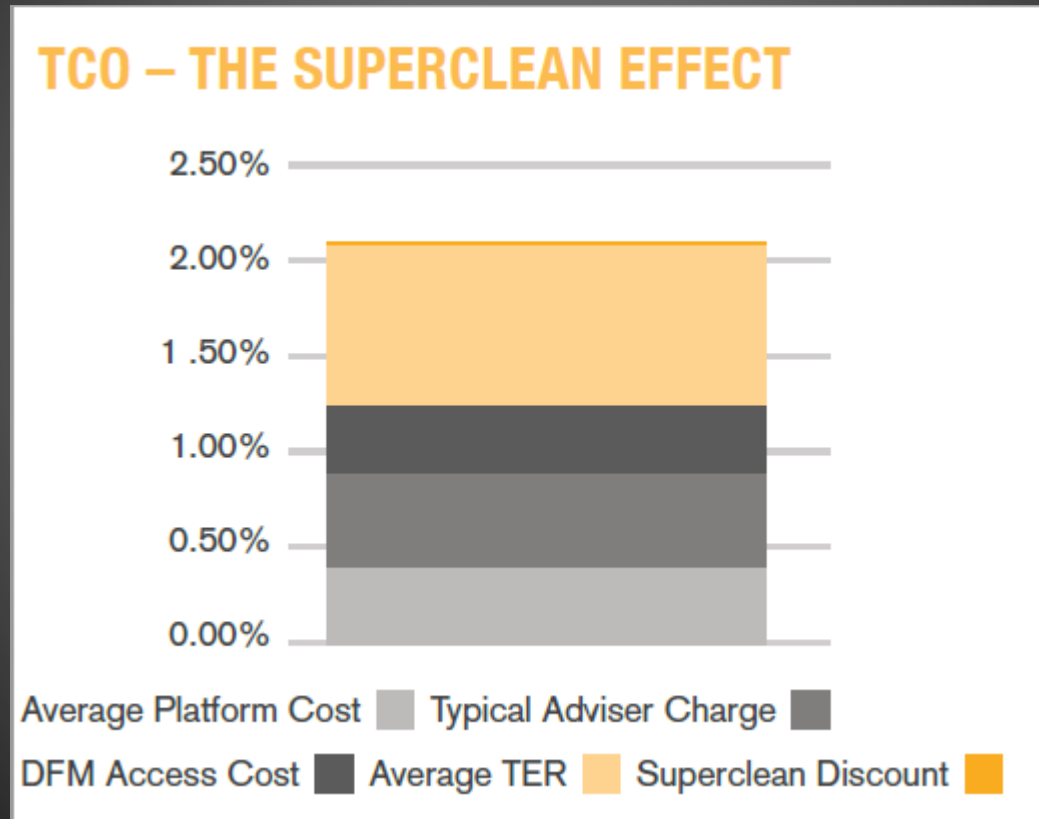


# PORTFOLIO COST



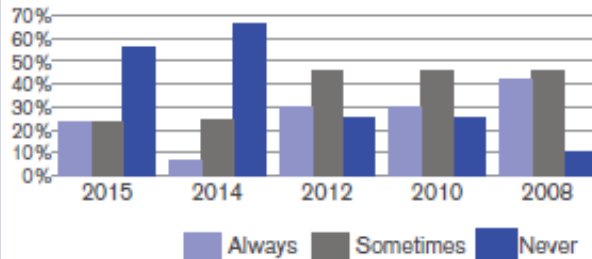
# PORTFOLIO COST

## THE SUPERCLEAN EFFECT

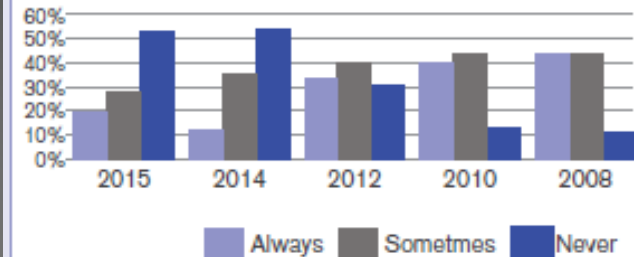


# WHO PROVIDES THE INVESTMENT ADVICE?

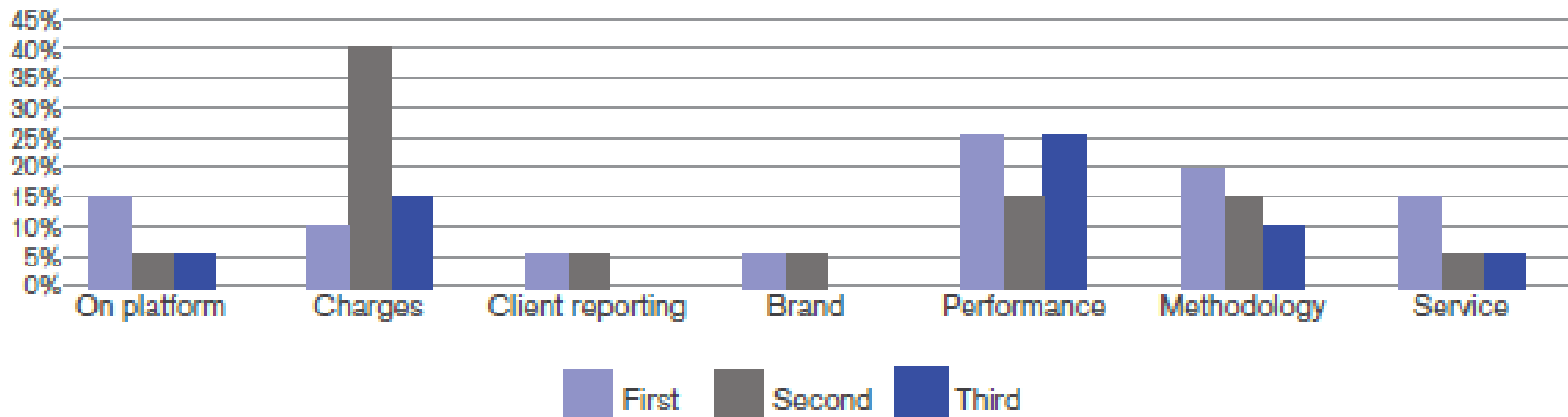
## DO ADVISERS MAKE ASSET ALLOCATION DECISIONS?



## DO ADVISERS MAKE FUND SELECTION DECISIONS?



## TOP THREE CRITERIA FOR OUTSOURCING TO DISCRETIONARY MANAGEMENT



# MAKING YOUR CHOICE

Why outsource? What's important?

How much centralised control do you have? What tools do you use?

How structured is your advice process?  
How does your cost structure work?

What preferences / prejudices do you have on investment style?

How / how often do you communicate investment matters to to your clients?





# 8 KEY CIP DIMENSIONS TO CONSIDER

PRICE (+ VAT)

PLATFORM(S) FIT

STYLE

COMMUNICATION

RISK PROFILING

RANGE OF MODELS

OWNERSHIP

MANDATE



# Words of wisdom from FG12/16



## Client agreements

*"The discretionary manager treats the advisory firm as its client, which is acting as the agent of the end investor. In this case we expect the advisory firm to explain the position clearly to its clients."*

## Shoehorning

*"When the CIP solution is not suitable...a firm must either recommend an alternative suitable solution or make no recommendation to the client. It is not acceptable to shoe-horn clients into the CIP solution."*

## Risk modelling

*"Where a firm uses risk-rated portfolios...it must ensure the portfolios align accurately with the risk descriptions and outputs from any risk-profiling tool... It is the responsibility of the firm to ensure this alignment."*

## Monitoring

*"Firms should have a robust file review process in place which...should provide challenge to advisers on suitability matters...Firms should train file checkers on the CIP and ensure they are competent."*



# ADVISER FEES?

## FIXED



Flat fees for specific services e.g. final salary scheme member consultation, £1,250.

Flat fee initially to cover cost of work done.

Absolute only. Three levels – £6k, £14k, £24k for complexity level. Decency max of 2% of total assets.

Moving to flat fees now; 100 bps out of funds is a big chunk.

Can take advice for fee then run money for nothing until advice required in the future.

Specific fees for services at times; reports £500 – £1000; essentially ad hoc charging.

Fixed fees for pensions advice; tax advice etc.”

Flat fees or hourly rates for ‘jobs’.

## AD VALOREM

Network takes 2% initial and 0.12% ongoing.

Might charge 2-3% for very small client.



Rarely 1%, average is 0.75%.

## DEPENDS



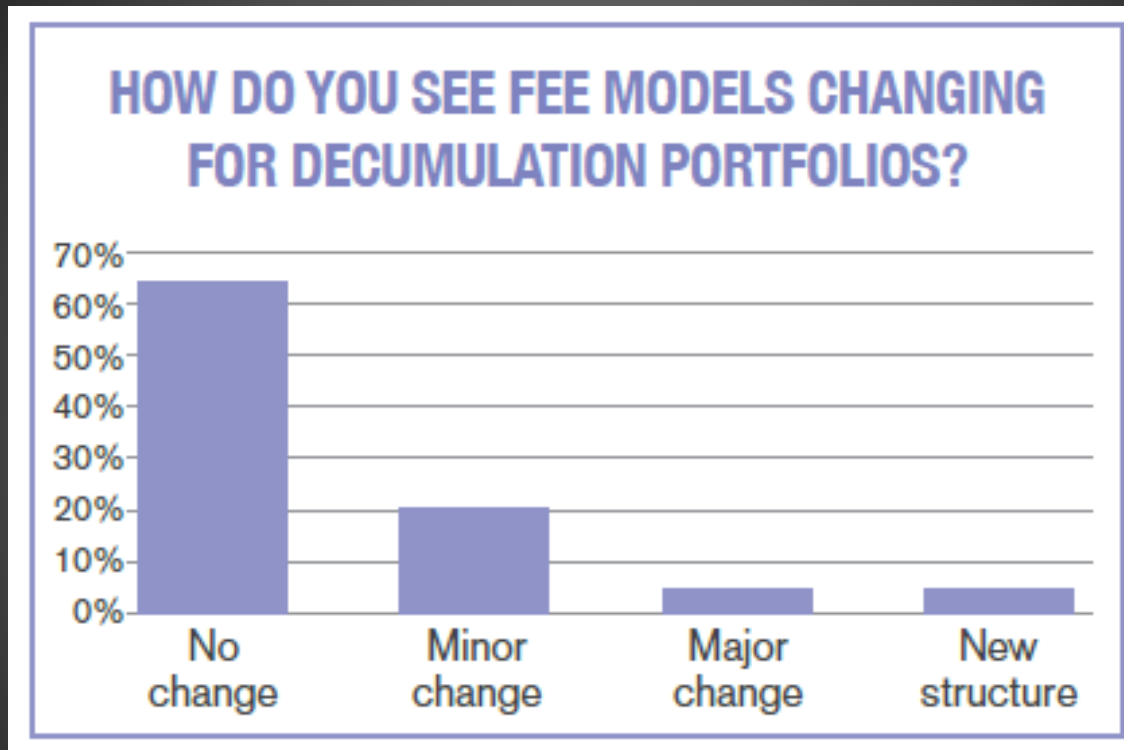
Money should be run with minimal intrusion; client wants consistency; should be very cheap.

Average annual is 0.65%; lots on hourly rate to pay paraplanners.



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# ANY PLANS TO CHANGE?



# “My pension fund is worth about £1m and I want an income of £50Kpa”

- Gross income £50,000
- Net income £40,000
  - Adviser fees at 50bps = £5000
  - Platform fee at 30 bps = £3000
  - Total **£8000**
- **That is 20% of my income**
- And I am also paying up to 75bps for asset management
- plus, potentially DFM charges



# QUESTIONS

- **Assume adviser hourly charge of £200ph**
  - £5k = 25 hours of adviser time
  - I actually get....?
- **Platform fee**
  - 3k provides....?
- **Questions**
  - If I had 100k how would my service differ?
  - Am I treated fairly?
  - Would I be paying this fee if it was in an annuity?
  - Does the industry need to charge differently post retirement? If so, how?





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