A REVIEW OF THE SCOTTISH WIDOWS RETIREMENT ACCOUNT

the lang cat

This document is a review by the lang cat of the Scottish Widows Retirement Account (RA). The main objective of the review is to assess how its investment proposition, with specific focus on its Solution Funds and Governed Investment Strategies (GIS), compare to similar propositions in the market. We'll give an overview of RA's main product features and assess how it stacks up on range, cost and performance. We'll also offer some views on how advisers might use it to best effect with clients.

LET'S BE CLEAR

Scottish Widows commissioned the lang cat to write this document. It's always a bit weird when someone pays you to do an analysis of them, so we have to set some ground rules.

We let providers check we've got the facts right on their product, but that's where it ends. The views we express here are our own and Scottish Widows had no editorial control over content or influence on the figures and analysis.

At the lang cat we stake our reputation on our independence so we don't say here anything we wouldn't say if we weren't being paid. You'll just have to trust us on that.

LIMBERING UP: THE BASICS

The purpose of this document is to assess the investment proposition held within the Scottish Widows Retirement Account and how relevant it is for retirement planning in the modern world. But before we get into the guts of that, here's a short summary of the product as a whole.

SCOTTISH WIDOWS RETIREMENT ACCOUNT: AT-A-GLANCE GUIDE

- It's what traditionalists would call a hybrid SIPP; a personal pension with access to both insured pension funds and a wider range of sophisticated investments available through a self-invested option.
- The charging structure is entirely unbundled – meaning there's an explicit annual service charge for the product, with asset charges separate (including for insured funds).
- The full range of capped and flexi-access drawdown options are available – as are both conventional and enhanced annuities.
- Online functionality includes illustrations, real-time valuations, new business and policy servicing.
- There's also a range of online adviser tools including a go/no-go tool for recommending the product, lifetime allowance calculator and a risk calculator that matches to GIS.

THE PEER GROUP AND TERMS

We identified the peer group with Scottish Widows as part of an assessment of similarly structured products i.e. who Widows should view as its rivals. Based on our experience of insured pensions, we know this group will take up a large chunk of the market so we're confident it's a good representation.

Before we get going, you can see that there are two products in here named Pension Portfolio which ISN'T AT ALL FRUSTRATING FOR US. So, to make this easier to read and avoid an acronym-related meltdown we're going to refer to the providers by name throughout.

Right, we're all still friends. Let's get cracking.

PROVIDER	PRODUCT
Scottish Widows	Retirement Account
Aviva	Pension Portfolio[1]
LV=	Flexible Transitions Account
Royal London	Pension Portfolio[1]
Standard Life	Active Money SIPP

A LOOK AT THE CHARGES

You can't control investment performance. You can, within the bounds of what's available in the market, control how much you (or in any case your clients) choose to pay. So the cost of using the Scottish Widows Retirement Account compared to its competitors, or other centralised investment proposition (CIP) alternatives, really matters. The regulator is very clear on this, which is why you'll find the FCA pension switching template (which places a large emphasis on cost) built into third-party cost comparison tools like O&M Pensions Profiler and Selectapension.

Predicting client costs is notoriously difficult within multi-investment vehicles like SIPPs because tiered and event-driven charges (for things like drawdown or direct equity trading) muddy the waters. This is less pronounced if the client always stays in the same type of asset but can get nasty if, for example, they shift into more sophisticated self-invested options or to mutual funds from insured funds. At the very least, any drawdown charges are going to hit a high proportion of clients.

Next then, a summary of the peer group's approach to charging:

1. We think Royal London – nee Scottish Life – nipped in first with the naming. Should have got it trademarked, lads.

A LOOK AT THE CHARGES

PROVIDER	SCOTTISH WIDOWS	AVIVA	LV=	ROYAL LONDON	STANDARD LIFE
PRODUCT	RETIREMENT ACCOUNT	PENSION PORTFOLIO	FLEXIBLE TRANSITIONS ACCOUNT	PENSION PORTFOLIO	ACTIVE MONEY SIPP
Product Structure	Fully unbundled charging structure with an explicit annual service charge and asset charges separate (including for insured funds)	Fully unbundled charging structure with three different structures depending on investment option: **Core –** insured funds **Choice –** fund supermarket **Flex –** SIPP	Fully unbundled with three different structures depending on investment option: **Pension Funds –** insured funds **Extended Choice –** fund supermarket **Bespoke Solution –** SIPP	There are three different structures depending on investment option: **Core –** insured funds **Online –** fund supermarket and share dealing **Full –** SIPP	There are three different structures depending on investment option: **Level 1 –** insured funds **Level 2 –** fund supermarket **Level 3 –** SIPP

Core Product Charges

Scottish Widows

Funds	Annual Charge
Up to £30k	0.70%
£30k - £500k	0.30%
£500k - £1m	0.20%
£1m+	0.15%

Note that the structure is **stepped**, so when each new increment is reached, the charge applies to the **whole fund**.

Aviva

Funds	Core	Choice & Flex
Up to £30k	0.35%	0.40%
£30k - £250k	0.30%	0.35%
£250k - £400k	0.20%	0.25%
£400k+	0.10%	0.15%

An annual charge of £250 applies if choosing the **Flex** option

LV=

Funds	Pension Funds	Choice
Under £1m	0.25%	0.30%
Over £1m	0.10%	0.10%

Funds	Bespoke Solution
Up to £75k	0.55%
£75k - £350k	0.35%
£350k - £1m	0.20%
£1m+	0.10%

Royal London

Funds	Annual Charge
Up to £30.3k	0.90%
£30.3k - £60.7k	0.50%
£60.7k - £182k	0.45%
£182k - £607k	0.40%
£607k+	0.35%

Operates a bundled model. There is a core product charge of 1% built into fund pricing. This is reduced by a series of fund discounts.

Note that the structure is **stepped**, so when each new increment is reached, the charge applies to the **whole fund**.

Standard Life

Funds	Discount
£50k - £250k	0.30%
£250k - £500k	0.40%
£500k+	0.50%

It's a bundled charging model for insured funds. Annual charges range from 0.5% – 2% depending on funds chosen. Investments above £50k will get a discount as above.

Drawdown Charges

Scottish Widows

Funds	Additional Charge
Up to £30k	0.20%
£30k - £50k	0.10%
£50k - £70k	0.07%
£70k+	0.05%

For drawdown cases, there is an additional annual charge as above.

Aviva: No additional charge

LV=

Funds	Activation Fee
Up to £50k	£295
Above £50k	£175

This applies to the **Pension Funds** structure only.

Activating drawdown while in the **Extended Choice** structure moves the plan to **Bespoke Solution** charging.

Royal London: One-off charge of **£184** at outset

Standard Life: £189 set-up, £149 p.a. (if in Level 3 investments only)

If Self-Invested

Scottish Widows: There is an additional **0.14%** annual charge to access the fund supermarket

Aviva

Funds	Additional Charge
Up to £30k	0.40%
£30k - £250k	0.35%
£250k - £400k	0.25%
£400k+	0.15%

An annual charge of **£250** applies if choosing the **Flex** option

LV=

Funds	Additional Charge
Up to £75k	0.55%
£75k - £350k	0.35%
£350k - £1m	0.20%
£1m+	0.10%

Royal London

Option	Activation Fee
Online Investments	£360
Full Investments:	£665

Standard Life

Funds	Level 2	Level 3
Up to £100k	0.60%	£485
£100k - £250k	0.55%	£303
£250k - £500k	0.45%	£182
£500k+	0.40%	£0

For **Level 2** and **Level 3** investments, the pricing is unbundled. For **Level 2**, if you hold less than **£50k**, there is a **£242 p.a.** charge. Additional annual charges as above.

Self-Invested Asset Charges

Each plan has LOTS of self-invested options, each with its own charging menu covering LOTS and LOTS of figures. A comparison of this nature is beyond the scope of this paper, but if you have a spare few hours to kill, it's well worth looking up. (Honest)

So, how does the Retirement Account's structure stack up?

- Aviva, LV= and Scottish Widows are all fully unbundled, meaning the core wrapper charges apply no matter which investments the client is using – even for insured funds. It's hard to argue with an explicit charge that is easier for the adviser to explain and the customer to understand. Kudos to all three providers on that front.
- Explicit charging has the added advantage of being (to use a horrible marketing phrase) future-proof. If, as many suspect, explicit charging rules that currently apply only to platforms are read across to all investment products, the unbundled triumvirate will be in a good position. If or when that happens advisers using Scottish Widows won't be faced with the cost, headaches and flight risk of a client migration exercise.
- Standard Life and Royal London have hybrid structures. Both are essentially the same approach – insured funds have old fashioned bundled pricing (product charge implicit within the fund) and anything non-insured has a tiered product charge plus asset costs.
- Of the unbundled cohort, Scottish Widows stands out positively as having only one core charging option (with steps ranging from 0.15% to 0.70%).
- Aviva and LV= both have three different options depending on asset types used (insured, fund supermarket and self-invested). That's a few more moving parts for both advisers and clients to get their heads round.
- SW's additional 0.14% to access the fund supermarket is less attractive, adds complexity, and could bite for larger fund sizes.
- The Scottish Widows Retirement Account, along with Royal London Pension Portfolio also has the advantage of having a **stepped** core product charge rather than **tiered**. This means when customers reach a new charging point based on their fund size, the new charge level applies to the whole fund, rather than having to bust the calculator out and work out a weighted average. That's one in the win column.

Overall, we quite like Scottish Widows' charging structure. Having a simple, unbundled core charge leads the peer group in terms of clarity and predictability, although we're not fans of the additional fund supermarket charge. Nonetheless, of the peer group, **it's the easiest to explain to clients and the easiest to predict**.

DRAWDOWN, DRAWDOWN EVERYWHERE

Unless you've been hiding in a cave for the past 6 months, you'll know by now that the pension freedoms legislation has shone a massive spotlight on what customers are paying when in drawdown. And according to the ABI, just under £2bn – nearly half of which is drawdown – was taken from pension pots in the first three months after pension freedoms went live in April 2015. Not only that, the new legislation has driven a significant increase in pension sales, with insurers reporting chunky new business volumes.

However, before you read any further, please repeat this phrase in your head three times (or even out loud – which would be funny if you're on a train) 'LOOKING AT DRAWDOWN CHARGES IN ISOLATION COULD BE MISLEADING'.

This is because the Total Cost of Ownership (TCO) the client pays when in drawdown is what matters. If, for example, drawdown is free, but wrapper and asset charges are high, then the client could easily be paying a higher drawdown TCO.

With that in mind, here's a summary table of the peer group's respective approach to drawdown charging:

	INITIAL	ONGOING
Scottish Widows	None	Slightly higher % charge at each tranche ranging from 0.05% to 0.20% depending on pot size
Aviva	None	None
LV=	Initial fee of £295 for pot sizes under £50k. Or £175 for pots bigger than £50k (only applies to the Pension Funds structure).	None
Royal London	£184 set-up	None
Standard Life	*£189 set-up	*£146 p.a.

*Applies to Level 3 (more fancy) investments only

A big point here: drawdown charges are relevant but the size of pot your client has to draw down is of course important too. And in terms of managing client outcomes, that the investment has been managed in line with their agreed risk and objective parameters. This takes us nicely to the next section.

A NOTE ON COMPARING PRICE

We wholly recognise that the pension market is very price sensitive, and rightly so; it's part of the adviser's job to ensure clients get the best price for a suitable venue.

However, we always point out that price comparisons are only relevant when comparing a range of solutions that can meet a client's needs. There is little point in something being cheaper if it doesn't offer what is required to properly implement a financial plan. Something cheap and unsuitable…is still unsuitable.

INVESTMENT PROPOSITION

Let's start with a summary view of what each of the peer group offers:

PROVIDER	PRODUCT	INSURED FUNDS	RISK SOLUTIONS (INTERNALLY MANAGED)	PATHWAYS (RISK + AGE + GOAL)	FUND SUPERMARKET (OPEN MARKET)	DFM	FIXED TERM DEPOSITS	COMMERCIAL PROPERTY
Scottish Widows	Retirement Account	Over 100	7 risk-rated Solution Funds and three drawdown portfolios (A, B & C)	9 all together – 3 risk ratings for 3 life-stages	Over 2,400	Panel of 8	Scottish Widows Bank – offers vary	Yes
Aviva	Pension Portfolio	Over 100	16 multi-asset solutions	No	Yes	Yes	Yes	Yes
LV=	Flexible Transitions Account	Over 110	No	No	2,500 via Cofunds, 1,000 via Fidelity	Yes	No	Yes
Royal London	Pension Portfolio	Over 160	9 Governed Portfolios	9 risk graded plus 5 income specific portfolio (GRIP)	Yes, over 2,000	Panel of 5	No	Yes
Standard Life	Active Money SIPP	Over 300	25 Myfolio portfolios with an Active Retirement option split over 3 pots	MyFolio Strategic Lifestyle (5 pension profiles)	Yes, over 2,000	Yes	Yes	Yes

And as we're here to focus on the insured proposition, here's more detail on each:

Scottish Widows: Range of 7 Solution Funds. Underlying funds are a wide mix of over 20 asset managers. Benchmark allocations are reviewed regularly with tactical adjustments. Aberdeen Asset Management (who has a strategic relationship with Scottish Widows) oversees many aspects. SW also has a further range of Governed Investment Solutions – three risk-based strategies with three options each depending on customer aims. Like Royal London, Scottish Widows places a huge emphasis on the transparency of its governance framework, with external input and all tactical moves fully documented. It uses Widows and SSgA passives which keeps costs down.

Aviva: A range of multi-asset solution funds. The underlying funds are composed mainly of Aviva funds, passives and ETFs (presumably to help drive down costs). No pathway solutions.

LV=: Offers a range of externally managed, risk-based funds that are mapped to the Distribution Technology attitude to risk tool. No in-house managed investment proposition.

Royal London: Throws a huge weight of focus behind its Governed range. That's a range of nine funds that also form the building blocks of a large number of lifestyle strategies (with active/passive/DFM/equity options). Underlying funds are in-house (Royal London Asset Management) in the main unless the adviser overrides the equity component. Asset allocations of portfolios are reviewed and rebalanced regularly with external input from Moody's.

Standard Life: A range of risk-rated MyFolio funds and pathway strategies. Passive, active, multi-manager and income versions of each are available. The underlying investments have a large exposure to funds managed by Standard Life Investments.

FOCUS ON SOLUTION FUNDS

2015 research conducted by the lang cat, in conjunction with CWC Research, shows that advisers are increasingly outsourcing their investment decision-making. In 2008 only 10% of advisers said that they 'never' made asset allocation decisions. By 2014 that figure had grown to 65%.

This is reflected in the level of new business into the Scottish Widows Retirement Account that's flowing into either Solution Funds or GIS. CIPs are increasingly popular with advisers and this is clearly no different within hybrid SIPPs. We'll focus on these elements of the Retirement Account's investment proposition from here on in.

Each of the peer group (with the exception of LV=) offers an in-house range of risk aligned, insured multi-manager or multi-asset funds. These are low cost options, because they are own brand, and have long been a cornerstone of the insured personal pension landscape.

We've taken the Retirement Account's 7 Solution Funds and each of the peer group's equivalent and, using Dynamic Planner's risk criteria, assessed performance, volatility and length of demonstrable track record.

First, a summary review of the Total Cost of Ownership (TCO) of using the solution funds within the Retirement Account. This means considering the fund TCO in addition to the wrapper charge (where applicable). The charges we've used in the following example are the lowest possible, basic wrapper charges of each provider when using only insured funds; we're assuming that 100% of the funds are invested in the relevant solution fund option. Remember, however, that some providers have higher wrapper and administration charges if using other types of assets (as detailed in the table on page 4).

It looks like this.

	AVERAGE TER	WRAPPER CHARGE, £100k	TCO, £100k
Scottish Widows Solution Funds	0.75%	0.30%	1.05%
Aviva Multi-Asset	0.57%	0.30%	0.87%
LV= (7IM)	0.72%	0.25%	0.97%
Royal London Governed Portfolios	1.00%	n/a, bundled	0.90%
Standard Life MyFolio Managed	1.34%	n/a, bundled	1.04%

* We used 7IM along with LV= as apparently it's a popular choice for LV= users (we asked, they told us)

With Royal London and Standard Life, the lower TCO is achieved by discounts (again, see table on page 4) being applied to the bundled charge. We're not keen on this mechanism and would simply caution that RDR 2, or whatever it is ultimately called, is likely to require unbundling and a consequent migration exercise. However, averaging has its issues because, as you can see from the fund TERs in the upcoming mapping table, it does depend on the fund being used. For example, using the Scottish Widows Defensive Solution has a TCO of 0.93% at £100k. Standard Life Myfolio Managed V has a TCO of 1.41% at £100k.

The TCOs are within a relatively close range of each other with an 18bps difference between the lowest and highest cost. Our view is that the TCOs are within a close enough tolerance that performance, volatility and length of measurable track record are likely to be foremost in selection analysis.

SOLUTION FUNDS HEAD TO HEAD

DYNAMIC PLANNER MAPPING	PROVIDER	PORTFOLIO NAME	TER	1 YR CAR TO 30/06/15 (%)	1 YR VOLATILITY TO 30/06/15	1 YR SORTINO RATIO TO 30/06/15	3 YR CAR TO 30/06/15 (%)	3 YR VOLATILITY TO 30/06/15	TRACK RECORD MEASURABLE FROM
2 – Very Low Risk	Aviva	Multi-Asset I	0.65%	4.76%	3.43%	-0.38%	5.49%	3.10%	**Apr-12**
3 – Low Risk	**Scottish Widows**	**Cautious Solution**	**0.64%**	**3.19%**	**2.99%**	**-0.64%**	**6.33%**	**3.45%**	**Oct-05**
	Scottish Widows	**Defensive Solution**	**0.63%**	**2.70%**	**2.55%**	**-0.77%**	**5.14%**	**2.85%**	**Oct-05**
	LV=	7IM Cautious	0.76%	2.83%	3.82%	-0.81%	5.23%	4.09%	**Jul-10**
	Royal London	Governed Portfolio 3	1.00%	3.22%	2.81%	-0.60%	4.68%	3.11%	**Jan-09**
	Standard Life	MyFolio Managed I	1.21%	5.01%	3.29%	-0.08%	5.09%	2.98%	**Oct-10**
4 – Lowest Medium Risk	**Scottish Widows**	**Discovery Solution**	**0.72%**	**4.31%**	**4.23%**	**-0.51%**	**7.89%**	**4.64%**	**Oct-05**
	Aviva	Multi-Asset II	0.55%	8.18%	5.17%	-0.07%	8.62%	5.52%	**Apr-11**
	LV=	7IM Moderately Cautious	0.67%	6.51%	4.97%	-0.30%	9.54%	5.04%	**Apr-09**
	Royal London	Governed Portfolio 2	1.00%	6.45%	5.39%	-0.15%	8.23%	6.36%	**Jan-09**
	Royal London	Governed Portfolio 6	1.00%	4.07%	3.78%	-0.39%	6.28%	3.98%	**Jan-09**
	Standard Life	MyFolio Managed II	1.30%	7.18%	4.01%	0.27%	7.56%	3.66%	**Oct-10**
5 – Low Medium Risk	**Scottish Widows**	**Balanced Solution**	**0.74%**	**4.91%**	**5.08%**	**-0.49%**	**8.70%**	**5.40%**	**Oct-05**
	Aviva	Multi-Asset III	0.55%	9.56%	7.04%	0.01%	10.65%	7.30%	**Apr-12**
	LV=	7IM Balanced	0.67%	7.66%	5.45%	-0.42%	9.99%	5.94%	**Apr-09**
	Royal London	Governed Portfolio 1	1.00%	7.53%	6.37%	-0.11%	9.53%	7.16%	**Jan-09**
	Royal London	Governed Portfolio 5	1.00%	6.71%	5.92%	-0.17%	9.28%	6.97%	**Jan-09**
	Royal London	Governed Portfolio 9	1.00%	4.64%	4.60%	-0.34%	7.29%	6.21%	**Jan-09**
	Standard Life	MyFolio Managed III	1.36%	8.79%	4.75%	0.40%	10.30%	4.67%	**Oct-10**
6 – High Medium Risk	**Scottish Widows**	**Dynamic Solution**	**0.82%**	**6.38%**	**7.13%**	**-0.44%**	**11.02%**	**7.61%**	**Oct-05**
	Scottish Widows	**Strategic Solution**	**0.82%**	**5.67%**	**6.22%**	**-0.47%**	**9.87%**	**6.57%**	**Oct-05**
	Aviva	Multi-Asset IV	0.55%	10.76%	8.12%	-0.07%	12.63%	8.67%	**Apr-11**
	LV=	7IM Moderately Adventurous	0.70%	9.66%	6.19%	-0.35%	11.34%	6.92%	**Apr-09**
	Royal London	Governed Portfolio 4	1.00%	7.41%	6.55%	-0.14%	10.29%	7.67%	**Jan-09**
	Royal London	Governed Portfolio 8	1.00%	6.88%	6.52%	-0.19%	10.16%	7.77%	**Jan-09**
	Standard Life	MyFolio Managed IV	1.40%	10.36%	5.52%	0.46%	12.34%	5.67%	**Oct-10**
7 – Highest Medium Risk	**Scottish Widows**	**Adventurous Solution**	**0.88%**	**7.70%**	**7.85%**	**-0.39%**	**11.97%**	**8.41%**	**Oct-05**
	LV=	7IM Adventurous	0.78%	9.42%	6.65%	-0.40%	11.37%	7.85%	**Apr-09**
	Royal London	Governed Portfolio 7	1.00%	7.23%	7.09%	-0.16%	11.15%	8.45%	**Jan-09**
	Standard Life	MyFolio Managed V	1.41%	11.43%	6.50%	0.47%	14.09%	6.83%	**Oct-10**
8 – High Risk	Aviva	Multi-Asset V	0.55%	12.07%	9.53%	-0.06%	11.46%	9.86%	**Apr-12**

- In the Calculated Annual Return (CAR) column, we've #heatmapped the highest returns, meaning green is high and red is low. The volatility column works in the same way but here green is low volatility and red is high.
- What's rather gratifying to see is that, across the market, these funds are doing what they are designed to do. And that's matching volatility and return.
- The Scottish Widows Solution Funds are not necessarily at the top of the heap in the returns stakes although neither are they especially out of line.
- However, in our view, the most important job a risk-aligned CIP has is to be…aligned to risk. Higher returns are all well and good but no one is clapping if the client hits retirement and the formerly high returning fund takes a larger dive than its cousins. The Scottish Widows Solution Funds generally perform well in this regard.
- SW's Solution Funds now have a decade under their belt; (the longest demonstrable track record) most competitors are between 4 and 6 years. The Royal London Governed Portfolios have been around since 2004 (in their previous guise of Managed Strategies) although performance data on our tool of choice (FE Analytics) only goes back to 2009.

PATHWAYS

Let's take a step further up the 'leave it to us, lads' CIP ladder now to what we at the lang cat call 'pathway' options. And for the Retirement Account that means SW's Governed Investment Solutions (GIS).

Not only do pathway solutions factor in risk, but also age and objectives. In this time of pension freedoms, which in turn have been largely driven by people living longer in retirement, pathway funds are an increasingly popular part of the investment landscape. But they're not the only one.

Here is a summary of what we believe are the main considerations for each route:

OPTION	INSURED PATHWAY FUNDS	FUND MANAGER SOLUTION FUNDS OR PORTFOLIO SOLUTIONS	SELF-MANAGED MODEL PORTFOLIOS	DFM MODEL PORTFOLIOS
CONSIDERATIONS	Low cost Risk + goal + age designed High level of outsourced governance May be seen as less independent	Easier to move product provider through re-registration Tend to be risk-based only: don't have goal and age built in	Day-to-day control High effort Less specialism (unless it exists in-house) Relatively high cost if active funds (platform + funds) less so if passive	Greater diversity of asset types More specialist Easy to change DFM if not happy Higher cost (DFM + product + funds)

TYPICAL COST

Suitability is entirely related to your client's needs and your client proposition; just to be clear. We have no view on where and when, or even if, any of these options is suitable for your client, because we don't know your client. And we're not advisers.

Scottish Widows has told us that £1.4bn, which is an increase of 34% on the previous year, flowed into GIS in the year to May 2015. That's strong growth, and clearly, in an investment sense, one part of RA that appeals strongly to advisers and their clients.

Here's an overview of GIS in relation to its peers.

Before that, the rules of engagement for this section are:

- We're only going to compare like-for-like (or at least, close enough to make no difference)
- From our peer group, this means comparing GIS to RL's Governed Portfolios and Standard Life's MyFolio Strategic Lifestyle Pension Profiles (keep breathing now)
- Neither Aviva or LV= offer comparable solutions so they're not in this section. It wouldn't be fair on anyone to compare apples and pears, mainly because fruit is completely irrelevant to governed investments.

PROVIDER	PROPOSITION	NUMBER OF RISK-BANDS	SPAN	TARGETS	UNDERLYING FUNDS	INVESTMENT COST
Scottish Widows	Governed Investment Solutions	3	15 years	Target Cash Target Annuity Target Drawdown	Composed of fund of fund passives managed by a combination of Scottish Widows, SSgA and Aberdeen Asset Management.	0.10%
Royal London	Governed Portfolios	5	15 years	Target Cash Target Annuity Target Drawdown	All Royal London Asset Management funds unless active (where equity fund is replaced by Rathbone Global Alpha) or tracker (where equity fund is replaced by BlackRock tracker) are chosen.	No additional cost (remember, the product is bundled) so the overall TCO is 0.35% to 0.90% depending on fund size. However, if the active option is chosen then the specialist fund carries an additional 0.45% charge so the overall TCO will depend on equity exposure at the time of investment.
Standard Life	Strategic Lifestyle Profiles	5	10 years	Universal Annuity Lump Sum Active Retirement	Depends on the option chosen in the accumulation stage. Can be mainly active managed equity funds, with a premium option – we wonder what quantifies a non-premium option, or mainly passives (with an option to specialise in Vanguard funds).	In summary, there are over 70 combinations in total with TERs ranging from 1.01% to 1.40%. But, remember those product wrapper discounts!

There's something to be said here for clarity of proposition. Scottish Widows has 9 options overall and Royal London is in a similar ballpark, although we think that Scottish Widows is that bit clearer – especially when you factor in the Solution Funds and think about the overall insured lifestyle proposition.

With over 70 possible MyFolio Strategic Lifestyle Profiles and 25 MyFolio Funds sitting underneath, using Standard Life really involves building a proposition within a proposition; there are lots of moving parts to keep an eye on. For those who are comfortable with that, MyFolio works well.

At this point, we'd have loved to introduce a performance comparison in addition to cost here, but unfortunately we're going to have to back away. Here's why:

- We don't have enough space, and you don't have enough patience. Look at the sheer volume of options in the previous table. Standard Life alone has over 70 different permutations.
- Were we to take one of these options and create a side by side comparison, you still need to consider the fact that two ostensibly identical clients (same initial fund value, attitude to risk and investment timeframe) could achieve two dramatically different outcomes depending on when they enter the market.

All in all, we think that in 2015, people can sniff out a conveniently constructed case study, so we're not going to do one.

What we will do, though, is compare the 'factory gate' cost of these propositions. We've looked at five portfolio sizes, picked out the balanced strategy for each provider (costs are similar regardless of risk grading) and wired in the product and fund TERs. Here's where it gets a bit tricky again. The Scottish Widows Balanced GIS has a fund TER of 0.10%, and for customer TCO, you need to add in the relevant product cost on top depending on your fund size.

Whereas, for Standard Life and Royal London the respective fund portfolio TERs include product costs bundled in, so the TCO at each portfolio size needs to have the correct discount lobbed off.

PROVIDER	PATHWAY	TER	25k TCO	50k TCO	100k TCO	150k TCO	250k TCO
Scottish Widows	Balanced GIS	0.10%	0.80%	0.40%	0.40%	0.40%	0.40%
Royal London	Balanced Lifestyle Strategy	1.00%*	0.90%	0.50%	0.45%	0.45%	0.40%
Standard Life	MyFolio Managed III	1.36%*	1.36%	1.16%	1.16%	1.16%	0.96%

*Bundled model

The average portfolio size in the insured hybrid SIPP sector is about £100k, so this is a good point to focus on (yes, we know averages are a blunt instrument but we have to use something). GIS within RA comes in at a hefty 76bps lower than using MyFolio Managed within Active Money SIPP. This is a difference to the client of £760 a year.

Our research shows that, in aggregate, there is little cost differential between most types of CIP (DFM model portfolio services/MM funds). However, there is a clear cost differential when comparing the TER of GIS to other types of CIP:

CIP TYPE	AVERAGE TER
Scottish Widows GIS	0.10%
MM/MA funds	1.11%
DFM	0.82%

Research conducted by the lang cat, January 2015

So whether comparing to similar insured pathway funds or wider CIPs, GIS are clearly cost competitive.

Of course it's not just down to costs. It's only fair of us to point out that providers of other CIP types would argue that for the higher cost you may get access to more sophisticated and flexible vehicles.

Scottish Widows has shared with the lang cat some currently confidential information (guess we might have just burst that bubble then) on forthcoming developments. It's a bit strange for us to be talking about this as it's 'no oor baw' (Scottish playground slang: 'the owner of a football gets to decide who plays in an informally arranged match'.) However, now we know about it, it would also seem wrong not to mention anything.

Work is ongoing to expand the GIS proposition as we speak. It's going to be a 'GIS plus' (our term) range that has a more diversified investment approach than the existing GIS, for example extending a portion of the weighting to absolute return funds. It looks interesting and, broadly, has the objective of maintaining the same risk but with better returns. Some snippets on how this is shaping up:

- Exposure to asset classes such as absolute return, UK property and global corporate bonds (among others)
- There will also be equivalent A, B, C drawdown portfolios

Overall, controlling risk through lifestyle stages is what pathway funds are all about, so with the existing track record of GIS (and all of the existing options will still be available) even better returns, while at least maintaining volatility control, can't be argued with if it can be achieved.

WRAPPING IT ALL UP – OUR VIEWS ON THE RETIREMENT ACCOUNT INVESTMENT PROPOSITION

INSURED		• Number and range typical of peer group, no real gaps.
RISK SOLUTIONS		• Less than some, more than others, simplicity is a virtue especially in tandem with the GIS and the overall proposition.
PATHWAYS		• Simple but good coverage of client needs. • Clarity. • Strong track record and volatility control.
IN-RETIREMENT PORTFOLIOS		• The risk-rated, income targeting, A, B, C portfolios already carry on from GIS in terms of risk matching. Less choice than Royal London but ahead of other competitors. This is an area in which we anticipate more development from all providers.
FUND SUPERMARKET		• Access to a considerable 2,400+ funds, covering the gamut of managers, sectors and asset types. We don't like the additional charge, though.
DFM		• Good sized, good quality panel.
FIXED TERM DEPOSITS		• Admittedly less popular in the current climate but that will inevitably change.
SELF-INVESTED		• Nothing missing and no extra charges.
EQUITY DEALING		• Nothing missing with the likes of ETFs and investment trusts also available. In our view, a hygiene factor but it's there for those who need it.
COMMERCIAL PROPERTY		• Also mainly a hygiene factor, but it's there and the costs are in line with the market.

PROPOSITION AS A WHOLE

In the lang cat's opinion, and all other things being equal, the Scottish Widows Retirement Account is particularly strong in the following areas:

- It's price competitive – the TCO for a GIS portfolio comes in at around 0.40% for portfolios above £30k due to the combination of low wrapper and investment costs.
- The investment proposition has depth in terms of choice and numbers; nothing is missing from insured funds through to more sophisticated options such as equity trading and DFMs.
- Transparency: there's real clarity of price and investment proposition compared to everyone else.
- Due to the diversity of the investment proposition, RA is strong for future-proofing evolving client needs, for example if a client becomes more sophisticated in their needs as time goes by. It's not alone in this regard, but if it works, it works.
- Its main specialism is incorporating pathway funds, these are low cost, managed and governed to a high standard and provide clear performance track record within a controlled framework.

AND FOCUSING ON GIS IN PARTICULAR

- Rebalancing and risk adjustment within a 10 basis point vehicle simply cannot be argued with in terms of keeping costs down.
- Price, proposition and performance are at the front of the pack on transparency and design engineering.
- Strong regulatory fit in the current landscape – designed to target annuity, encashment and flexi-access drawdown.
- If low-cost managed solutions are your bag and you have no issues with (or even particularly like) passive funds, GIS has lots to like as an insured CIP option. We think it adds a valuable layer of choice to the range of CIPs available in the market and see it continuing to do so in the future.

LOOKING TO THE FUTURE

- The RA investment proposition is, it must be said, pretty comprehensive. If we are being picky, some expansion of in-drawdown investment solutions is an obvious development route. Pension freedoms are doing what they said on the tin (much more money is going into drawdown) and people are living longer. Achieving controlled growth in drawdown (and why not even higher-risk growth if it's what a client wants?) is essential. The recently launched A,B,C portfolios already inhabit this space meaning Scottish Widows is already in the game, but there are lots of solutions being developed across the industry and we expect to see this accelerate. Issues such as pound cost ravaging and cash flow reserve strategies are becoming ever more important to advisers so support in tackling these is always going to be welcome.
- There's no ability for the SW pension to interact with other tax wrappers and this is something we think pensions are going to have to do more of in the future. Retirement planning is about more than pensions and, although advisers can aggregate in the back office, it doesn't mean that pension providers are absolved from tackling the overall picture. We're not suggesting that Scottish Widows needs to morph the RA into a platform but that addressing total portfolio inclusivity is worth more focus.

TAXI FOR THE LANG CAT: ALL ABOUT US

We're a noisy consultancy based in Edinburgh, specialising in platforms, pensions and investments. We spend about half our time on advisory work with providers and advisers. Lots of proposition development, lots of take-to-market consultancy, lots of pricing and competitive positioning analysis. The rest of our time we spend on delivering very high quality PR, technical copywriting and marketing services. We also publish an annual Guide to Advised Platforms and lots of other stuff. To find out more just visit www.langcatfinancial.com

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