# TO RETIREMENT, AND BEYOND:

## THE LIFETIME COSTS OF INVESTING

A MARKET ANALYSIS PAPER FROM

**the lang cat**

# BEFORE WE GET GOING

This paper was commissioned by Scottish Widows. Its primary purpose is to examine the lifetime costs of investing that clients face. To do this, we take Retirement Account, Scottish Widows' flagship individual retirement proposition, and compare it to a selection of its peers – both on and off platform – in the context of some 'real life' customer scenarios.

Those of you familiar with the lang cat will know that we carry out these analyses every now and again, when we think the topic is pertinent, interesting and we have something to add. If you're an adviser working with clients around retirement income, then we think you'll find something of interest – regardless of which providers you favour.

Now, we know what you're thinking. But no, this isn't an advert for Scottish Widows. There is, of course, no disputing the fact that this is a sponsored analysis. And naturally, Scottish Widows is going to commission a paper on a part of the market in which it feels it's particularly strong.

With that in mind, some ground rules apply. First, we checked in with Scottish Widows every so often and made sure that we had the details of Retirement Account correct. But it didn't get to check or challenge any other data or facts.

Second, this isn't a view from the lang cat on the relative merits of certain products, investments or providers over others. That's a conversation for another day where individual circumstances and client suitability trump all.

Lastly, we believe that organisations hire us for work such as this because of our independence and for the honest, direct and sometimes plain awkward opinions that come with it. The views we express here are our own and Scottish Widows had zero editorial control or influence on the analysis. The paper is based on a combination of our experience in the market, our own research and views from the advisers we regularly speak to. The day we let ourselves be compromised is the day it all falls apart for us.

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## A NOTE ON RESEARCH

Throughout this report, we will lean on and reference 'our research' and various statistics. These are taken from the following lang cat publications:

- *Fixed That For You*, our 2018/9 guide to the advised platform market;
- *State of the Adviser Nation*, our inaugural study of adviser sentiment; and
- *Platform Market Scorecard*, our quarterly analysis of the advised platform market.

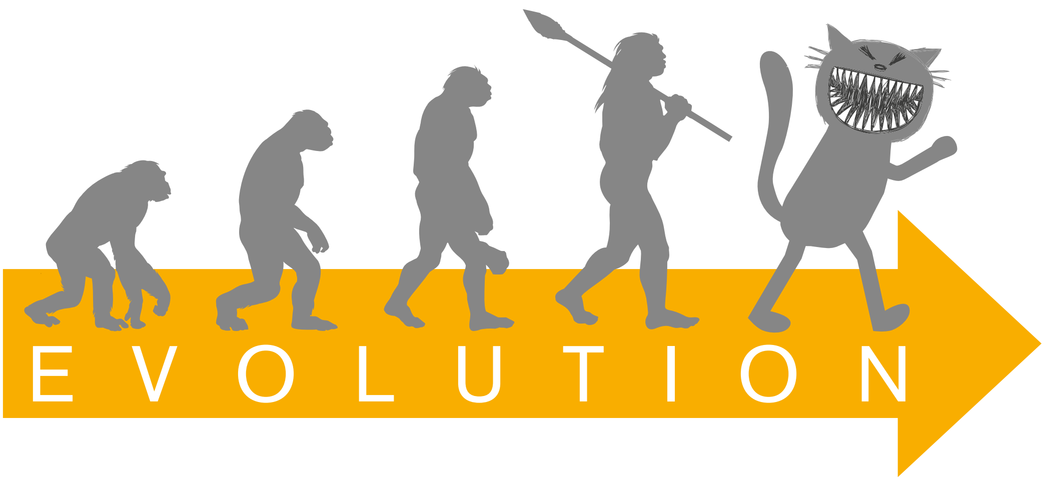
# THE EVOLUTION OF RETIREMENT INCOME

**Now, we've all passed Long-term Savings and Investment Markets 101, so don't need to waste your time and ours recapping on how the pension freedoms came along and changed everything. They did and that's that.**

Consumers have more choice – or, if you prefer, freedom – than ever before around accessing their hard-earned retirement savings. The most recent FCA data (September 2018) sized the retirement income market (drawdown and annuities) at £384bn assets under management (AUM), with drawdown being the runaway winner here. Inflows totalled £22.4bn during the 2017/18 financial year, with £110bn held in crystallised assets[1]. The surge of transfers from defined benefit (DB) to defined contribution (DC) schemes, which peaked during 2017, means a healthy continuing flow of assets as people take benefits from those products.

The liberation of pension benefits has also opened our collective eyes to just how long and varied retirement can be. Whether it's taking a lump sum at the earliest opportunity or planning for long-term care, retirement is starting earlier for many and can cover a considerable period of time.

As consumer needs change, providers must surely respond and we're starting to see signs of innovation, with hybrid annuity and drawdown solutions appearing on the market. We'll just have to wait and see whether these fill the gap of 'certainty with a bit of flexibility', or is it 'flexibility with a bit of certainty'?




1. https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf

# THE HERE AND NOW

The range of retirement income options may be the ~~best~~ widest it's ever been; centralised investment propositions (CIPs) are commonplace now and we know they're in demand – our *State of the Adviser Nation* research[2] found that 86% of advisers use one in one form or another.

Centralised retirement propositions (CRPs), on the other hand, have been more of a slow burner. When we asked advisers whether they ran different investments for clients in retirement, the majority replied that clients tended to remain in their existing investments. There are several reasons behind this and our conversations with advisers revealed the following:

- Just because a client moves into retirement doesn't mean that their attitude to risk changes.
- A good number of advisers don't yet have a CRP in place.
- Packaged solutions for retirement income are few and far between. There have, however, been recent developments from AJ Bell, Novia and Seven IM, which sit alongside some more established propositions.

CIPs with options for accumulation and decumulation are now available, not to mention attendant bells and whistles such as risk management and governance. Competition is heating up with the ultimate aim of making life easier for the adviser by catering for their clients' many and changing needs. This may be a noble purpose, but 'one size fits all' approaches from advisers/providers risk raising the ire of the regulator.

Recent FCA interactions with providers and advisers make it abundantly clear that the regulator wants to provide consumers with a competitive, value for money and downright *fair* market. We first got a whiff of this when the Retail Distribution Review (RDR) launched in 2012. Since then there's been a veritable smörgåsbord of regulation to contend with: the Asset Management Market Study (AMMS), the Investment Platforms Market Study (IPMS), the Retirement Outcomes Review (ROR), the second Markets in Financial Instruments Directive (MiFID II) and the Product Intervention and Product Governance Sourcebook (PROD) are among the highlights.

# CUSTOMER-MINDED

If there's an overarching theme across all this, it's the sharpened focus on consumer value for money. One key element which an adviser or client will use to determine value is cost. When it comes to investing for and in retirement – as we'll see – the collective costs can have a significant impact.

If we take this to its natural conclusion and follow a retirement income arrangement from inception until the client's death, we can then ask ourselves, how much of an impact the adviser, product/platform, wrapper and investment charges have throughout the lifetime of the plan.

Clearly, we're planning to answer that question (it would be one of our shorter papers otherwise). In order to do that we'll start by introducing you to our peer group of providers and their different charging structures.

2. We surveyed 235 advised firms across October and November 2018.

# MEET THE PEER GROUP

**We've used a range of on- and off-platform pension providers, all of which offer drawdown, and have made it clear which is which. In the interest of fair disclosure, this is by no means an exhaustive list of either category.**

We built our peer group on dual bases: first; to showcase the different charging approaches currently available; and second, from an adviser perspective, using a range of providers we believe are likely to be compared against one another. There isn't always a clear line between on- and off-platform providers when it comes to placing business and we reflect that here.

| PROVIDER/ PLATFORM | CORE CHARGES (p.a.) | PENSION CHARGES | DRAWDOWN CHARGES |
|---|---|---|---|
| **OFF-PLATFORM** | | | |
| LV= | Pension funds: steps down from 0.25% to 0.10% for funds above £1m. The 0.25% reduces to 0.15% where the Flexible Guarantee funds are used. These funds carry an additional charge.<br>DFM: 0.35% for the first £350k, 0.20% for the next £650k, 0% for assets over £1m.<br>SIPP: 0.55% for the first £75k, 0.35% for the next £275k, 0.20% for the next £650k, 0.10% above £1m. | | £175 for funds over £37,500 (after PCLS).<br>£295 for funds under £37,500 (after PCLS).<br>Fees apply at each crystallisation event.<br>No fee for DFM or self-investment. |
| Prudential Retirement Account | Steps down from 0.45% to 0.25% based on fund value. | | |
| Royal London Pension Portfolio | Bundled approach. Fund charge of 1%, discount applies based on fund value.<br>Net AMC ranges from 0.90% to 0.35%.<br>Charge assumes investment in internal funds. External investment charges may increase this. | | £204 one-off drawdown fee (waived if the personal pension plan has been in force for over 12 months). |
| Scottish Widows Retirement Account | Steps down from 0.90% to 0.10% based on fund value. | | |
| **ON-PLATFORM** | | | |
| Aegon Retirement Choices (ARC) | Tiered charges from 0.60% to 0.45%, capped at £1,215 p.a. | | £75 annual fee. |
| AJ Bell Investcentre | Tiered custody charge of 0.20% for up to £1m, 0.15% for assets between £1m and £1.5m, 0.10% between £1.5m and £2m and 0% for assets above £2m. | Between £30 and £50 quarterly charge + VAT, depending on fund value. Waived above £200k. | £150 plus VAT flexi-access drawdown charge. Menu of additional drawdown charges. |
| Ascentric | 0.30% down to 0.06% (minimum £180 annual fee). | | |
| Aviva Platform | Tiered from 0.40% down to 0.15% for Choice, based on fund value. | | |
| FundsNetwork | Hybrid approach of 0.25% p.a. plus a £45 annual investor fee. | | |
| Nucleus | 0.35% for fund values up to £500k, 0.175% between £500k and £1m and 0.05% for assets in excess of £1m. | | |
| Old Mutual Wealth | Tiered charge based on fund value, from 0.50% to 0.15%. | | |
| Standard Life Wrap | Tiered charges from 0.55% down to 0.25% on Standard terms. For Core terms, the charge reduces by 10 basis points (bps) for each tier. | | |
| Transact | Two tiered structures based on whether deposit or portfolio value is + or - £100k.<br>For payments or portfolios below £100k, range is 0.50% to 0.29%.<br>For payments or portfolios over £100k, range is 0.29% to 0.05%. | £20 quarterly fee for the pension wrapper. | |
| Zurich | Portfolio charge based on asset value. Tiered from 0.35% to 0.10% for funds above £500k. | £18.75 quarterly fee for Retirement Account. | |

We know providers use different terminology to describe their respective charging structures – some call 'stepped' 'tiered' and vice versa, so let's take a moment to clarify what we mean here:

- when we say 'stepped', we mean that the charges apply to the full portfolio, depending on which pricing band it has reached.
- 'tiered' pricing is where portfolios are split into chunks, with each chunk charged according to which pricing band it fits into.

# VARIETY IS THE SPICE OF DUE DILIGENCE. OR NOT

The wide range of means for accessing drawdown proves there's no 'typical' format for charging, which we know makes advisers' lives a misery when doing due diligence. The variety of structures and levels on offer isn't helpful for comparison purposes, but the 'real life' stories of our personalities will bring this to life. With cats.

We know that adviser models vary – some use only platform(s), others use a combination of on- and off-platform providers, some segment their clients, some don't. Even though they really should. Segmentation isn't new but it's rapidly gaining prominence thanks to PROD, which, lest we forget, is enforceable legislation and so not to be taken lightly.

Yes, there's confusion around what does or doesn't directly apply under PROD, but the regulator clearly has a keen eye on customer value for money and ensuring advisers select investments and providers for appropriate customer segments, in line with both the letter and the spirit of regulation. The challenge here is that, according to our research, some advisers still don't seem to be clear on the PROD requirements[3]. And the 'enforceable' bit of the legislation makes this even more of a concern. But stripping it all back, PROD's purpose is clear – the one size fits all mentality is (or should be) a thing of the past. The future is based on client needs and advisers must align providers and their offerings accordingly.

Right, keeping all that in mind, it's time for us to get into the numbers.

# THE DETAIL

We've said it before, and we'll say it again – on- and off-platform providers love a percentage-based core charge. ALL the providers in our peer group operate one and we don't see this changing any time soon.

When it comes to wrapper costs, AJ Bell Investcentre, Transact and Zurich all levy fixed pension fees on top of the percentage-based platform/core charge. This doesn't really add complexity though, and we appreciate the clean nature of the fixed fee.

Both LV= and Royal London have stepped core charges with additional drawdown fees. LV= has one of the lowest core charges in the peer group for the pension funds option, although drawdown charges apply at each crystallisation point. Conversely, the discretionary investing and SIPP options both carry higher core charges (depending on pot size) but don't levy additional drawdown fees.

Royal London applies a one-off £204 drawdown fee, although this doesn't apply if the personal pension has been in force for a year.

Royal London is the only provider in the group to use a bundled charging approach, meaning the fee for its internally managed funds and Governed Range portfolios is included in the core charge, with discounts applied based on fund size. Its charges look high here, but that's why.

3. The lang cat's adviser survey conducted in May 2019 found that 70% of advisers think they are complying with the requirements of PROD and MiFID II, but 22% weren't sure and 8% don't think they are.

# INVESTING FOR AND IN RETIREMENT

**Let's see how all that detail translates into figures. The core charge is the best place to start, but it should not be looked at in isolation. This is only the start of the pricing journey[4].**

We must also take into consideration the differences between investing for accumulation (growth pre-retirement) and decumulation (at-retirement and beyond). This is where we start to see the divergence of on- and off-platform pricing, as well as where those low platform/core charges can be increased by drawdown fees.

## PRE-RETIREMENT

We're looking at the core charge for off-platform providers, and platform and pension wrapper costs for on-platform, over a year. Investment costs aren't included, except for Royal London where costs for the in-house range are bundled in.

| | £50k | £75k | £100k | £150k | £250k | £500k | £1m | £2.5m |
|---|---|---|---|---|---|---|---|---|
| Aegon Retirement Choices (ARC) | 0.58% | 0.55% | 0.54% | 0.51% | 0.49% | 0.24% | 0.12% | 0.05% |
| AJ Bell Investcentre | 0.68% | 0.52% | 0.44% | 0.36% | 0.20% | 0.20% | 0.20% | 0.13% |
| Ascentric | 0.36% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.18% |
| Aviva Platform | 0.38% | 0.37% | 0.36% | 0.36% | 0.36% | 0.28% | 0.22% | 0.18% |
| FundsNetwork | 0.34% | 0.31% | 0.30% | 0.28% | 0.27% | 0.26% | 0.25% | 0.25% |
| LV= | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.10% | 0.10% |
| Nucleus | 0.35% | 0.35% | 0.35% | 0.35% | 0.35% | 0.35% | 0.26% | 0.13% |
| Old Mutual Wealth | 0.42% | 0.40% | 0.39% | 0.36% | 0.33% | 0.32% | 0.28% | 0.20% |
| Prudential Retirement Account | 0.45% | 0.45% | 0.40% | 0.40% | 0.35% | 0.30% | 0.25% | 0.25% |
| Royal London Pension Portfolio | 0.50% | 0.45% | 0.45% | 0.45% | 0.40% | 0.40% | 0.35% | 0.35% |
| Scottish Widows Retirement Account | 0.30% | 0.30% | 0.30% | 0.30% | 0.25% | 0.20% | 0.10% | 0.10% |
| Standard Life Wrap | 0.55% | 0.55% | 0.55% | 0.53% | 0.52% | 0.48% | 0.42% | 0.32% |
| Standard Life Wrap (Core) | 0.45% | 0.45% | 0.45% | 0.43% | 0.42% | 0.38% | 0.32% | 0.22% |
| Transact | 0.66% | 0.56% | 0.37% | 0.34% | 0.32% | 0.31% | 0.26% | 0.15% |
| Zurich | 0.50% | 0.45% | 0.42% | 0.38% | 0.35% | 0.30% | 0.20% | 0.14% |
| Market average | 0.45% | 0.42% | 0.39% | 0.37% | 0.34% | 0.31% | 0.24% | 0.18% |

The base AMC of 0.15% for LV= is only available where the Flexible Guarantee funds are used. If other pension funds are used, charges step down from 0.25% to 0.10% for funds above £1m.

Common sense prevails in this pricing table – the cost reduces as the fund value increases. Scottish Widows and LV= are the standout providers here with consistently lower core charges than most of the peer group and the market average.

Aegon Retirement Choices (ARC), AJ Bell Investcentre, Standard Life Wrap and Transact all stand out at the lower end of the fund value spectrum by virtue of additional wrapper charges for AJ Bell and Transact and higher core charges for ARC and Standard Life Wrap.

It's important to consider price in the overall context of suitability. A splash of red on a heatmap doesn't mean that the price is 'bad' or that the product should be discounted if the rest of the due diligence criteria are positive.

4. Sorry…

# AT AND IN RETIREMENT

We're now looking at the effect over a year of adding any drawdown charges to the base costs from the first table. With many providers still applying minimum entry requirements for drawdown, we have to assume that a client is in a suitable enough position to be entering drawdown in the first place.

| | £50k | £75k | £100k | £150k | £250k | £500k | £1m | £2.5m |
|---|---|---|---|---|---|---|---|---|
| Aegon Retirement Choices (ARC) | 0.73% | 0.65% | 0.61% | 0.56% | 0.52% | 0.26% | 0.13% | 0.05% |
| AJ Bell Investcentre | 0.98% | 0.72% | 0.59% | 0.46% | 0.26% | 0.23% | 0.22% | 0.14% |
| Ascentric | 0.36% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.18% |
| Aviva Platform | 0.38% | 0.37% | 0.36% | 0.36% | 0.36% | 0.28% | 0.22% | 0.18% |
| FundsNetwork | 0.34% | 0.31% | 0.30% | 0.28% | 0.27% | 0.26% | 0.25% | 0.25% |
| LV= | 0.60% | 0.48% | 0.43% | 0.37% | 0.32% | 0.29% | 0.12% | 0.11% |
| Nucleus | 0.35% | 0.35% | 0.35% | 0.35% | 0.35% | 0.35% | 0.26% | 0.13% |
| Old Mutual Wealth | 0.42% | 0.40% | 0.39% | 0.36% | 0.33% | 0.32% | 0.28% | 0.20% |
| Prudential Retirement Account | 0.45% | 0.45% | 0.40% | 0.40% | 0.35% | 0.30% | 0.25% | 0.25% |
| Royal London Pension Portfolio | 0.90% | 0.72% | 0.65% | 0.58% | 0.48% | 0.44% | 0.37% | 0.36% |
| Scottish Widows Retirement Account | 0.30% | 0.30% | 0.30% | 0.30% | 0.25% | 0.20% | 0.10% | 0.10% |
| Standard Life Wrap | 0.55% | 0.55% | 0.55% | 0.53% | 0.52% | 0.48% | 0.42% | 0.32% |
| Standard Life Wrap (Core) | 0.45% | 0.45% | 0.45% | 0.43% | 0.42% | 0.38% | 0.32% | 0.22% |
| Transact | 0.66% | 0.56% | 0.37% | 0.34% | 0.32% | 0.31% | 0.26% | 0.15% |
| Zurich | 0.50% | 0.45% | 0.42% | 0.38% | 0.35% | 0.30% | 0.20% | 0.14% |
| Market average | 0.53% | 0.47% | 0.43% | 0.40% | 0.36% | 0.31% | 0.25% | 0.19% |

Only four of our peer group charge an additional fee for drawdown: ARC, AJ Bell Investcentre, LV= and Royal London. Now, as we've seen, some providers waive charges in certain circumstances, but in the interest of simplicity we're putting all that to one side and applying the advertised charges.

The impact on peer group positions is clear, particularly up to the £500k point, after which base charges naturally decrease for many providers, reducing the overall costs. Scottish Widows, which does not charge for drawdown, has the lowest priced proposition for nearly all portfolio sizes. Ascentric and FundsNetwork also fare well.

LV= applies a £175 per crystallisation fee, which means it only gets competitive from £1m, when the core charge is reduced to 0.10%, keeping the overall cost down from that point, for those lucky enough to have that much money invested.

Royal London's position has worsened with the addition of a drawdown charge, but this is a one-off at set-up (which doesn't apply where the plan is in force for 12 months). AJ Bell Investcentre's rather dichotomous appearance is thanks to its quarterly administration fee, which is waived when funds reach £200k.

In the previous table, Standard Life Wrap was one of the most expensive providers. Despite not applying drawdown charges, it remains one of the pricier propositions from £100k and is the most expensive between £250k to £1m (joint with ARC for £250k). Standard Life's Core terms apply for advisers with £20m or so assets on Wrap. We've used Standard terms for our personalities.

Now, if you're expecting the next step to be the adding in of investment costs, then well done you. Encapsulating the range of investments on offer in our peer group is beyond the wit of any heatmap, so it's at this point that our personalities step in.

# THE MAIN EVENT: PERSONALITIES AND PRICING

**We're going to travel alongside our three personalities as they plan for and take retirement income, starting at the point they buy a product and then following the changes and charges throughout the rest of their lives until death. We'll then take a look at the final fund value in each case – after all the investment, product and adviser charges are paid.**

PROD demands segmentation, so we've taken time to create a range of representative client types. Obviously, this isn't definitive – segmentation models differ per adviser – but it serves our purpose of illustrating the lifetime costs of investing.

For the purposes of this analysis, we assume that our personalities continue to be advised investors who will remain on platform/with the provider in question.

Now that we've got all that sorted out, let's get to know Gene, Dawn and David.

### Personal details

**Gene** – male, 55, married with two grown up kids, still working full-time, isn't an active investor, spends his money on food, drink, holidays and his family. He's Keeping It Simple, Stupid.

### Current situation

He's taking his PCLS (pension commencement lump sum) and the rest of his fund is invested in an adviser-run portfolio.

Hears from his adviser every now and then.

No outstanding mortgage but he's worried about his wife's pension and what will happen when he dies – she works part-time and has less private provision.

He's got an ISA but doesn't use his full allowance.

### Personal details

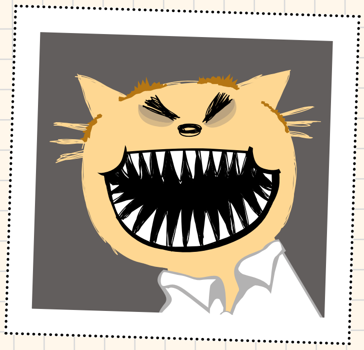
**Dawn** – female, 57, married, one child, two grandchildren, made redundant so stopped working, no mortgage, already downsized and lives in a flat with her husband.

### Current situation

Cleared her debts with her redundancy payment. Has a few workplace pensions, an ISA and some money sitting in cash for emergencies.

Sees a financial adviser every year and gets in touch every now and then when she needs to release funds.

Adviser uses an off-the-shelf low-cost investment solution in drawdown to manage income sustainability levels.



### Personal details

**David** – male, 45, in the middle of a divorce, three children, works full-time, currently renting a flat but looking to buy a house soon.

### Current situation

Low ISA and cash savings.

Has some workplace pensions from previous employers. A Pension Sharing Order will reduce his current pension fund value.

Has an adviser he was introduced to through his employer and is invested in a discretionary fund management (DFM) model portfolio service (MPS) or a similar in-house solution.

# GENE: ADVISER-RUN PORTFOLIOS

| AGE | EVENT |
|---|---|
| 55 | Takes PCLS. |
| 56 | Remains invested – no income. |
| 57 | Cruise around the Med with his wife, needs extra income. |
| 58 | Contributes £5,000 to a family wedding so extra income needed. |
| 59 | Needs some income for a family holiday. |
| 60 – 62 | Remains invested – no income. |
| 63 | Stops work, takes £12,000 p.a. regular income. |
| 64 | Income, plus wedding contribution of £5,000. |
| 65 | Gene's wife dies. |
| 66 | Reduces regular income to £7,200 p.a. |
| 67 | State Pension starts, so reduces income to £3,600 p.a. |
| 68 – 73 | Continues taking regular income. |
| 74 | Needs care at home, which increases monthly income requirement. |
| 75 – 77 | Continues taking regular income. |
| 78 | Moves into a care home and increases regular income to £20,000 p.a. Family rent out his house to fund the excess. |
| 79 – 83 | Continues taking regular income. |
| 84 | Gene dies. |

Gene has a relatively comfortable existence. He's enjoyed a good career, loves his wife and kids and has a fairly active social life.

His carefully managed adviser-run portfolios and regular reviews mean that when his health takes a downturn, he is able to pay for at-home and care home services from his pension income.

**Assumptions we've made for Gene:**

| | |
|---|---|
| **Investment type** | Adviser-run portfolios. |
| **Starting fund value** | £250,000 |
| **Growth rate** | 5.00% p.a. |
| **Inflation rate** | 2.00% p.a. |
| **Investment charge** | 0.70% p.a. |
| **Ongoing adviser fee** | 0.88% p.a. |

A couple of other points, in the interest of a fair comparison:

- Clearly, adviser-run portfolios are going to vary from firm to firm depending on a number of factors. We've used a mode average of around 0.70% based on a representative sample of various bits of research. Now, lots will be lower, especially if a firm looks to compress costs by using passives for chunks of the portfolios, and lots will be higher too. That's us basically describing averages. Sorry.
- In our *State of the Adviser Nation* adviser survey, conducted in 2018, 82% of respondents who used adviser-run portfolios charged an ongoing fee of between 0.75% and 1.00% p.a., so we've used a 0.88% ongoing adviser charge for Gene.

| | FINAL VALUE | TOTAL CHARGES | INVESTMENT CHARGES | PRODUCT CHARGES | ADVISER CHARGES |
|---|---|---|---|---|---|
| Aegon Retirement Choices (ARC) | £50,129 | £114,265 | £36,556 | £28,254 | £49,456 |
| AJ Bell Investcentre | £68,147 | £109,099 | £38,319 | £19,108 | £51,672 |
| Ascentric | £71,790 | £106,924 | £38,509 | £16,504 | £51,911 |
| Aviva Platform | £66,381 | £108,747 | £38,020 | £19,431 | £51,296 |
| FundsNetwork | £74,302 | £106,143 | £38,746 | £15,188 | £52,209 |
| LV= | £68,788 | £108,367 | £38,301 | £18,416 | £51,650 |
| Nucleus | £67,085 | £108,496 | £38,082 | £19,041 | £51,374 |
| Old Mutual Wealth | £67,642 | £108,409 | £38,147 | £18,806 | £51,456 |
| Prudential | £62,660 | £110,044 | £37,690 | £21,474 | £50,881 |
| Royal London | £59,574 | £110,910 | £37,385 | £23,027 | £50,498 |
| Scottish Widows | £72,023 | £106,915 | £38,540 | £16,424 | £51,951 |
| Standard Life Wrap | £60,141 | £110,838 | £39,841 | £24,266 | £46,732 |
| Transact | £68,620 | £108,176 | £38,249 | £19,356 | £50,571 |
| Zurich | £65,665 | £109,147 | £37,978 | £19,924 | £51,244 |
| Market average | £65,925 | £109,034 | £38,169 | £19,944 | £50,921 |

Gene's investments spanned 29 years until his death at age 84. Gene withdrew ad-hoc income and varying amounts of regular income throughout, with regular adviser reviews and touchpoints.

Looking at the final values we can see similarities with our pre- and post-retirement tables: FundsNetwork and Scottish Widows have the highest final values and the lowest total charges (alongside Ascentric, LV= and Transact). This is because of their lower product charges – neither charges for drawdown and both have low core costs.

For Gene, ARC's core platform charge ranges from 0.49% to 0.56%, the highest in the peer group. Combined with the assumed 0.70% investment charge for adviser-run portfolios and a £75 annual drawdown fee, ARC produces the highest total charges and lowest final value in the peer group.

For the adviser charge we've assumed ongoing fees of 0.88% and monetary amounts for ad-hoc fees. Standard Life has the lowest total adviser charges across our peer group. That's down to its charges being comparatively high, which impacts the fund value. As the adviser charge is a percentage of fund value, it follows that this will be lower as a result.

As expected, based on the previous pre- and post-retirement tables, we can see a clear distinction between the no-frills approach – a low to medium core charge with no additional fees – and the PAYG approach to charging. No frills – a la FundsNetwork and Scottish Widows – appears to have worked best for Gene.

# DAWN: LOW COST SUSTAINABILITY

| AGE | EVENT |
|---|---|
| 57 | Takes PCLS. |
| 58 | Not working so needs a small regular income of £9,600 p.a. |
| 59 – 61 | Continues taking regular income. |
| 62 | Starts working part-time, stops income and leaves her pot invested. |
| 63 – 64 | Remains invested – no regular income. |
| 65 | Takes ad-hoc income to buy a campervan. |
| 66 | Remains invested – no regular income. |
| 67 | Finishes work, State Pension starts – needs a small income of £6,000 p.a. |
| 68 – 69 | Continues taking regular income. |
| 70 | Birthday celebrations – takes an extra £2,000 to treat her family. |
| 71 | Continues taking regular income. |
| 72 | Needs extra £2,000 for a wedding anniversary holiday. |
| 73 | Reduces regular income to £4,800 p.a. after an adviser review. |
| 74 – 83 | Continues taking regular income. |
| 84 | Dawn's husband dies. She withdraws an extra £4,000 to cover funeral costs. |
| 85 | Sells her flat to move in with her daughter – needs £3,000 for legal and moving fees. |
| 86 | Reduces regular income to £3,600 p.a. after an adviser review. |
| 87 – 93 | Continues taking regular income. |
| 94 | Dawn dies. |

Dawn has regular touchpoints with her adviser who manages sustainability by using passive, low-cost or flagship in-house investments.

**Assumptions we've made for Dawn:**

| | |
|---|---|
| **Investment type** | Low-cost/in-house/passive fund for sustainability. |
| **Starting fund value** | £200,000 |
| **Growth rate** | 5.00% p.a. |
| **Inflation rate** | 2.00% p.a. |
| **Investment charge** | See the table on the next page. |
| **Ongoing adviser fee** | 0.50% p.a. |

We start to see some differences between the solutions offered by the on- and off-platform providers here. Where we can, we've used the providers' own (what we believe to be) core, in-house solutions – passive where possible.

For those that don't provide an in-house solution we've used the poster child for passive management – the Vanguard LifeStrategy range. You'll also notice that Dawn's ongoing adviser charge is lower than Gene's and David's. The outsourced nature of a low-cost solution means lower ongoing adviser charges for Dawn.

| PLATFORM/PROVIDER | FUND CHOICE | OCF |
|---|---|---|
| Royal London Pension Portfolio | Governed Range* | 1.00% |
| Scottish Widows Retirement Account | Pension Portfolio | 0.10% |
| Scottish Widows Retirement Account | Retirement Portfolio | 0.20% |
| Everyone else | Vanguard LifeStrategy | 0.22% |

* a discount is applied to Royal London's 1.00% charge, based on the fund value. The core charge assumes investment in internal funds. External investment may result in additional charges.

| | FINAL VALUE | TOTAL CHARGES | INVESTMENT CHARGES | PRODUCT CHARGES | ADVISER CHARGES |
|---|---|---|---|---|---|
| Aegon Retirement Choices (ARC) | £83,800 | £59,036 | £9,268 | £25,004 | £24,764 |
| AJ Bell Investcentre | £66,848 | £56,378 | £8,802 | £23,872 | £23,704 |
| Ascentric | £93,195 | £48,113 | £9,579 | £13,063 | £25,471 |
| Aviva Platform | £86,595 | £49,799 | £9,367 | £15,444 | £24,988 |
| FundsNetwork | £94,637 | £47,878 | £9,632 | £12,655 | £25,591 |
| LV= | £85,348 | £50,940 | £9,365 | £16,592 | £24,983 |
| Nucleus | £87,842 | £49,444 | £9,405 | £14,963 | £25,076 |
| Old Mutual Wealth | £85,897 | £50,184 | £9,354 | £15,871 | £24,959 |
| Prudential | £82,098 | £51,101 | £9,229 | £17,196 | £24,675 |
| Royal London | £100,000 | £46,176 | £20,228 | | £25,948 |
| Scottish Widows – Pension Portfolio | £106,595 | £44,645 | £4,549 | £13,648 | £26,447 |
| Scottish Widows – Retirement Portfolio | £95,374 | £47,563 | £8,773 | £13,159 | £25,631 |
| Standard Life Wrap | £78,612 | £51,794 | £9,108 | £18,287 | £24,399 |
| Transact | £85,632 | £51,021 | £9,381 | £16,619 | £25,020 |
| Zurich | £82,401 | £51,159 | £9,245 | £17,202 | £24,712 |
| Market average | £87,658 | £50,349 | £9,686 | £16,684 | £25,091 |

*You've probably already guessed this but, as Royal London has a bundled structure, we've not heatmapped its combined product and investment charges.

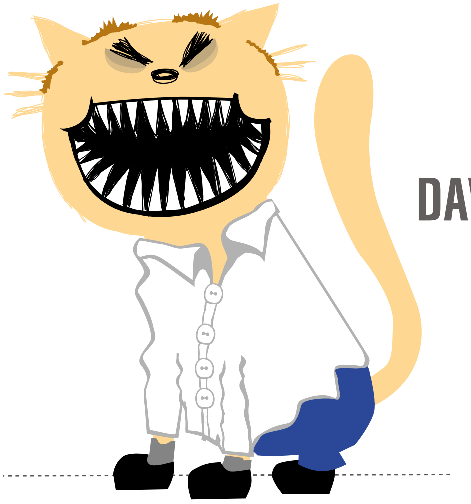
It's becoming more obvious how the product and investment charges that apply over the lifetime of a plan can impact its final value. We're also beginning to see how clarity of charges, in a manner that makes sense to the client, is key to providing them with cost effective, sustainable income.

For Dawn, AJ Bell Investcentre's combination of core, pension and drawdown charges means a much lower final fund value than its peers.

Sound the sponsorship klaxon, we're going to talk about Scottish Widows.

Scottish Widows' Pension Portfolio fund provides the cheapest (0.10% p.a.) passive investment route of the peer group, achieving the lowest total charges and highest final value.

Using the Retirement Portfolio funds (which are designed specifically for drawdown) increases the investment charge to 0.20% p.a. This results in a reduced final value (compared to the Pension Portfolio funds), but is still competitive against its peers.



# DAVID: OUTSOURCED INVESTMENTS

| AGE | EVENT |
|---|---|
| 45 | Paying £6,000 p.a. into his pension until he's 62. |
| 46 | Divorce costs him £50,000. |
| 47 – 54 | Remains invested – no income, still paying £6,000 p.a. into his plan. |
| 55 | Takes his PCLS. |
| 56 | Remains invested – no income, paying £6,000 p.a. |
| 57 | Ad-hoc income for a house deposit. |
| 58 – 59 | Remains invested – no income, paying £6,000 p.a. |
| 60 | Two family wedding contributions, including his own! |
| 61 | Remains invested – no income, paying £6,000 p.a. |
| 62 | Health scare – goes part-time and stops pension contributions. Needs a regular income of £15,000 p.a. to supplement his salary. |
| 63 – 66 | Continues taking regular income. |
| 67 | Stops working completely and starts receiving his State Pension. Increases income to £20,000 p.a. |
| 68 – 74 | Continues taking regular income. |
| 75 | Adviser review resets his income to £15,000 p.a. |
| 76 – 85 | Continues taking regular income. |
| 86 | David dies. |

David's situation is more complex than either Gene's or Dawn's. For a start, his Pension Sharing Order meant an immediate reduction in fund value. He is, however, still working when we meet him and a bit younger than Gene and Dawn, so his salary and pension contributions help to fund his lifestyle and his pot continues to grow, despite the higher investment charges.

As well as getting divorced (and eventually remarried), he buys a new house and stops work, which increases the need for a high growth solution in drawdown, plus income management.

He continues to meet with his adviser and, like Gene, we've assumed a 0.88% p.a. ongoing adviser charge. Our adviser survey, *State of the Adviser Nation*, found that 71% of respondents who used a full DFM service and/or DFM MPS took between 0.75% and 1.00% p.a. ongoing adviser charge.

**Assumptions we've made for David:**

| | |
|---|---|
| **Investment type** | DFM solution or in-house solution where available. |
| **Starting fund value** | £300,000 |
| **Growth rate** | 5.00% p.a. |
| **Inflation rate** | 2.00% p.a. |
| **Investment charge** | Charge for providers' in-house model portfolio solution or 0.90% average total cost of ownership (TCO) where a DFM solution is used (see the table on the next page showing funds used). |
| **Ongoing adviser fee** | 0.88% p.a. |

Tricky one, this. Our first two scenarios were relatively straightforward from an investment perspective. The first looked at adviser firms taking control of the investment proposition, while the second was about adviser firms seeking to compress investment costs as much as possible.

Here, where we look to 'outsource' the investment choice, it's a little more complicated due to the differences in structure between on- and off-platform pensions. In Platform Land, outsourcing to a DFM is commonplace, representing a large chunk of the market. However, this kind of arrangement is less commonly seen off-platform (although it is available via the SIPP component). With that in mind, we're illustrating a number of different packaged options.

So, rather than get tangled in a web of 'this doesn't absolutely compare to that', it's best to look through the lens of an adviser firm facilitating investment on behalf of the client via a range of risk-rated solutions that they aren't steering themselves. That's why we haven't heatmapped the table on the next page.

| PLATFORM/PROVIDER | FUND CHOICE | OCF |
|---|---|---|
| **LV=** | Rathbone DFM | 0.80% |
| **Prudential Retirement Account** | PruFund Risk Managed 3 | 0.82% |
| **Royal London Pension Portfolio** | Governed Range* | 1.00% |
| **Royal London Pension Portfolio** | RLP/Rathbone Strategic Growth** | 1.59% |
| **Scottish Widows Retirement Account** | Premier Pension Portfolio | 0.40% |
| **Everyone else** | A DFM | 0.90% |

* a discount is applied to Royal London's 1.00% charge, based on the fund value.

** a discount is applied to Royal London's 1.00% charge, based on the fund value. An additional investment charge is applied for Rathbone funds.

| | FINAL VALUE | TOTAL CHARGES | INVESTMENT CHARGES | PRODUCT CHARGES | ADVISER CHARGES |
|---|---|---|---|---|---|
| Aegon Retirement Choices (ARC) | £52,399 | £241,052 | £97,098 | £45,464 | £98,490 |
| AJ Bell Investcentre | £85,728 | £236,398 | £102,535 | £30,556 | £103,307 |
| Ascentric | £76,163 | £235,065 | £100,391 | £33,464 | £101,210 |
| Aviva Platform | £68,858 | £236,570 | £99,303 | £37,121 | £100,146 |
| FundsNetwork | £83,492 | £234,063 | £101,582 | £30,107 | £102,374 |
| LV= – Rathbone DFM | £87,371 | £233,269 | £90,807 | £39,503 | £102,959 |
| Nucleus | £65,689 | £236,719 | £98,733 | £38,396 | £99,589 |
| Old Mutual Wealth | £69,908 | £236,395 | £99,469 | £36,617 | £100,309 |
| Prudential | £81,205 | £234,913 | £92,315 | £40,477 | £102,121 |
| Royal London – Governed Range | £285,187 | £189,227 | £58,321 | | £130,907 |
| Royal London – RLP/Rathbone Strategic Growth | £122,184 | £227,159 | £70,499 | £48,255 | £108,405 |
| Scottish Widows – Premier Pension Portfolio | £210,696 | £208,204 | £53,551 | £33,792 | £120,861 |
| Standard Life Wrap | £54,013 | £238,799 | £96,931 | £44,041 | £97,827 |
| Transact | £71,970 | £236,076 | £99,811 | £35,622 | £100,643 |
| Zurich | £69,080 | £236,906 | £99,414 | £37,215 | £100,276 |
| Market average | £98,930 | £230,721 | £90,717 | £37,902 | £104,628 |

A more substantial retirement pot at the outset means a much more comfortable position when it comes to charging. Hitting around the £300k mark puts David in a higher tier for most providers, which means lower charges. For example, the bolt-on charge is waived for AJ Bell Investcentre, resulting in lower product charges than Gene and Dawn.

The investment charges column is eye-wateringly high here, but that's to be expected from an outsourced DFM solution. Adviser firms accept that outsourcing investments comes with increased costs for most (not all) scenarios, but firms clearly believe that the governance and potential out-performance (that's a whole other debate) are worth it.

The platform providers with the highest final values – AJ Bell Investcentre and FundsNetwork – also have the highest investment charges. But we've applied the same 0.90% charge across the peer group (apart from LV=, Prudential, Royal London and Scottish Widows), so this amount is relative to the fund size over the lifetime of the plan.

This is where the relationship between high fund values and percentage-based adviser charges becomes really obvious. The Royal London and Scottish Widows in-house solutions have lower charges, resulting in higher fund values and so higher adviser charges.

# CONCLUSIONS: WHAT NOW? AND WHAT'S NEXT?

**We've touched on where we are in the retirement market and Gene, Dawn and David have all helped us to understand the lifetime costs of investing. But what does that all mean? And what lies ahead?**

## IT ALL COMES DOWN TO THIS

The main reason we introduced you to our personalities[5] was to demonstrate how different investment solutions can be used to meet different client requirements. This was never about how one offering stacks up against another, but about how advisers can pick the best elements of what's currently available to create an appropriate long-term solution for their client.

Recognising the variations in client goals and aligning the investment solution accordingly is critical to the client's long-term financial wellbeing. As our figures show, investment methodology is one of the most important – if not the most important – determinants of final fund value.

Product charges also have a significant effect on fund value: a lower charge means a higher fund over time. That fund value is, in turn, what investment and adviser charges are based on and then deducted from. By harnessing the indescribable force of simple arithmetic, lower product charges create higher investment costs and percentage-based adviser charges by dint of that higher fund value. Sums giveth and sums taketh away[6]. No part of the equation stands alone.

We have, as you would expect, spent a good deal of this paper discussing the various costs involved in retirement income. But we're by no means advocating relying on costs alone to inform suitability decisions. We never have and we're not about to start now. Quality and breadth of proposition are both crucial elements of the retirement solution.

Platforms are great when it comes to tools, functionality or just having everything in the one place. However, within that, additional services that are all stitched together – risk profiling or client reporting for example – often mean a higher cost. We understand that, for certain clients, there's a place for low-cost solutions – like those from Scottish Widows, Royal London and LV=.

5. Other than because we wanted to dress up a cartoon cat as a geriatric rock star.
6. A little multi-layered arithmetic humour there.

# THE FUTURE OF COSTS

We don't think there's a great deal of fat to go after when it comes to on- and off-platform provider costs. A gradual decline of a basis point or so on average each year feels feasible in the short term as technology (hopefully) helps enable slicker processes and products, but we don't think too much sleep should be lost over whether someone is paying 32bps versus 35bps.

Ad valorem adviser charges, particularly in the realm of safe withdrawal rate (SWR) theory and outsourced investment expertise, will probably come under threat as the market starts to firm up the developing view that taking a big whack of ongoing income as fees is untenable (i.e. taking a 1% ongoing adviser charge whilst facilitating a 4% SWR). We may see further moves to fixed-fee adviser charges, in line with the legal/consultancy/professional services model.

Asset management charges (which, more often than not, we've found to be the core determinant of customer outcomes in terms of pure charges) offer more to go after. We will see further reductions in active management costs along with more off-the-shelf income-focused low-cost portfolios.

# THREE THINGS WE THINK WILL BE TRUE

## THE TECH ISSUE WILL STILL BE AN ISSUE

The great unknown in all of this is technology. Consider all the component parts that work together to form an adviser ecosystem in the context of income management: reporting, back office systems, income sustainability, investment choice, product architecture, client communications and so forth.

We're not even close to nailing this, nor does it feel like we will be for some time. While there is undoubtedly movement on some fronts, so many providers of all types have been mired in regulatory demands of one form or another, with the inevitable implications for development budget for actual developments.

## REGULATION RULES

The disclosure requirements ushered in under PROD and MiFID II added to the pressure on the adviser-run model portfolio segment. We may, as a result, see an entrenchment to off-the-shelf solutions in the longer term. PROD also encourages a segmented approach to the adviser client book. Again, in the context of retirement income, we're not even close to a consensus on what best practice looks like.

## EASE OF DOING BUSINESS IS THE BUSINESS

Finally, and returning to the theme of connectivity, pension freedoms brought together a growing market, but no single provider has really got to grips with how components such as investment solutions, reporting, disclosure, risk profiling, visualisation, CRMs and back office systems all fit together.

We constantly hear that the one big appeal of a packaged solution – as offered by the likes of LV=, Prudential, Royal London and Scottish Widows – is the ease of doing business. Never underestimate the power of that. Or the market potential should this be successfully blended with the other important components.

We hope you've enjoyed this exploration of the lifetime costs of investing, the various players and influencers. If it's given you some food for thought, then our work is done. For now.

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