TO RETIREMENT AND BEYOND

THE LIFETIME COSTS OF INVESTING

2021 UPDATE

A market analysis paper by the lang cat
October 2021

THE LANG CAT

BEFORE WE GET GOING

This paper was commissioned by Scottish Widows and we published the first edition in July 2019. It's been updated a couple of times since then and this is the latest version.

As well as updating the pricing data for our providers, we look back over the last year or so as the industry has done its best to look past The Great Unpleasantness and get itself back on track.

WHAT THIS PAPER IS

The primary purpose of this paper remains taking a close look at the lifetime costs of investing that clients face, comparing Retirement Account, Scottish Widows' flagship individual retirement proposition, to a selection of its peers – both on and off platform – in the context of some 'real life' customer scenarios. All of the data have been reviewed, refreshed and updated. We're also proud to include some results from the third wave of our annual omnibus survey, *State of the Adviser Nation,* which was published in December 2020.

WHAT THIS PAPER ISN'T

The paper isn't about the relative merits of any particular product, investment or provider over any others; that's between you, your clients and your advice process.

THE GROUND RULES

As with any sponsored piece, we need to set strict project-specific ground rules. For this exercise, the clear parameters we set with Scottish Widows were as follows:

- the lang cat defined the peer group for the charging comparisons. We need to strike a balance here between a good representative sample and something so unwieldy that it simply wouldn't work in a paper. We include most of the biggest providers in both segments (on- and off-platform) here.
- the lang cat defined the underlying assumptions and methodology. Particular attention should be drawn to the underlying assumptions around investment selection. This is chiefly driven by our proprietary research which stands alone outside of this exercise.
- the lang cat used its proprietary calculation engine to carry out the comparisons.
- Scottish Widows got sight of an early and complete draft of the paper to check for factual accuracy of its products and services.
- the proprietary adviser research we refer to – *State of the Adviser Nation* – is a separate entity entirely, designed, conducted, analysed and produced solely by the lang cat.

We hope you enjoy this updated version and that you find it useful, regardless of which providers you favour.

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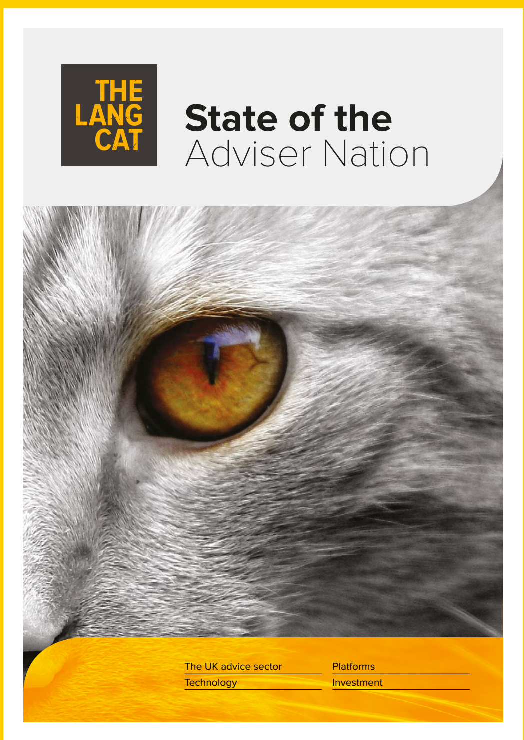


A NOTE ON RESEARCH

Throughout this report we reference our annual adviser research, *State of the Adviser Nation*. The third wave was conducted in October 2020 with 565 respondents.

THAT WAS THE YEAR THAT WAS (FOR RETIREMENT INCOME)

As the worst of The Great Unpleasantness appears, thankfully, to have passed, we can now start to take stock and look ahead. Retirement plans might have changed for some, as might their priorities and general outlook on life. The industry has certainly been getting back to business, with an M&A bonanza and some interesting regulatory moves in play.

MARKET UPDATES

First things first, the headlines from the last year or so:

1. AJ Bell increased its quarterly SIPP administration fees in January 2021 alongside a change to the portfolio levels at which they apply. SIPP assets under £100,000 now attract a £45 plus VAT fee each quarter, those between £100,000 and £200,000 are charged at £55 plus VAT per quarter and those above £200,000 incur a quarterly fee of £65 plus VAT. As was the case with the previous structure, the charge is waived if £200,000 of assets (SIPP, ISA or GIA) are invested using AJ Bell's Funds & Shares service.
2. Transact's charging structure had its annual shave, with funds up to £600,000 now 0.27% (previously 0.28%) and the next £600,000 now 0.17% (0.18%) with the remaining price bands unchanged. For portfolios under £100,000, the first £60,000 is charged at 0.50% with the portion between £60,000 and £100,000 charged at 0.27% (0.28%). The dealing fee of 0.05% for fund buys is now waived on portfolios over £300,000 (£400,000).
3. Royal London's charges move sightly each year in line with the Retail Price Index (RPI). The discounts at each band remain the same, but the portfolio values at which they apply have increased slightly. The one-off drawdown set-up charge also increased to £211 (£208).
4. It's safe to say that the swift and generally efficient shift to digital brought about by the pandemic is here to stay. Platforms and providers have made a decent fist of this but more could – we might even say *should* – be done. Digital signatures are a great start, but some platforms in particular could digitalise the whole process. The entire industry proved just how well and how quickly it can change when it really has to. We'd like to see firms taking that sentiment and doing what needs to be done to move things forward.

M&A ACTIVITY

It's been a busy old year as platforms changed hands or names or both. The skewed distribution of wealth in the UK makes retail investment a core path with asset managers, providers and private equity firms alike all seeking a seat at the table. Highlights for 2021 include:

- Aberdeen Standard Group rebranded to abrdn (polarising opinions in the process) following the sale of the Standard Life brand to Phoenix as part of a strategic shift away from insured business. The Parmenion platform also changed hands, to private equity firm Preservation Capital Partners.

- Ascentric moved from the Royal London stable to its new home at M&G Prudential, forming the cornerstone of the new M&G Wealth Management business and rebranding as M&G Wealth.
- Nucleus has been acquired by James Hay's private equity parent, Epiris. The two platforms will continue to operate independently while integration plans are developed. Chief executive David Ferguson and chief customer officer Barry Neilson will both leave the business.
- Embark, which swallowed up Zurich, is itself being acquired by Lloyds Banking Group in a £390m deal.
- Old Mutual Wealth finally completed its rebrand, emerging from its chrysalis as Quilter.

REGULATORY UPDATES

While regulatory activity ground to a halt during The Great Unpleasantness, the FCA is now working to make up some of that lost ground.

CONSUMER DUTY

While we prefer to avoid regulatory hyperbole, the FCA's Consumer Duty[1] work has the potential to be quite the big deal, bringing considerable disruption in its wake. Firstly, it covers all of retail financial services – so platforms *and* other providers. It also explicitly includes firms without a direct relationship to the consumer (asset managers, for example). Finally, it has a broad scope with four main outcomes:

1. Communication – this goes beyond mere compliance, with firms having to make sure communications can be easily understood and support informed decisions.
2. Target market – products and services need a clear target market definition, embedding and building on the existing PROD rules.
3. Customer service – consumers' 'reasonable needs and expectations' must be met.
4. Value for money – all firms will have to conduct value for money (VFM) assessments, similar to those asset managers have faced in recent years.

Just like PROD, these will be rules – not guidance – and evidence of compliance will be required.

The outcome of the consultation is due by the end of the year so things will be clearer then. However, with the rules potentially in place from July 2022 it doesn't feel as if the FCA is up for much debate about the scope. All things considered this is shaping up to be the hot regulatory topic for 2022.

SCAMS

Financial scams, particularly online ones, have proved to be one of the great growth areas since March 2020. Various measures are underway to help prevent the erroneous parting of people and their money. One such is The Pension Regulator's (TPR's) pledge to combat pension scams which encourages firms to sign up to the Pension Scam Industry Group Code of Good Practice.[2]

CHARGES COMPARISONS

As if advisers didn't have enough to keep in mind when working through pension transfer comparisons (which account for much of individual pension business), any available workplace scheme must also form part of the mix.[3] With a charge cap of 0.75% this creates even more pressure to demonstrate the VFM of other options.

The FCA is keeping up the focus here, albeit indirectly, though its Driving value for money in pensions consultation (CP20/9),[4] with a policy statement due later this year. The Consumer Duty proposal of a more formal VFM assessment is likely to have implications across the board.

PENSION ACCESS AGE

The increase in the age at which investors can access their private pension money (from 55 to 57 in 2028) is creeping ever closer. State Pension age rises to 67 the same year, which may or may not be a coincidence. The idea is to keep people in work for longer and make sure they have adequate pension provision in place for when they do retire. The changes will, however, impact a good many people who were potentially planning to retire in the next 10 years or so or were looking to access pension money to, say, clear their mortgage.

1. FCA – CP21/13: A new Consumer Duty, 14/5/21
2. TPR – Pledge to combat pension scams
3. FCA – PS20/6 Pension transfer advice: feedback on CP19/25 and our final rules and guidance, 5/6/20
4. FCA – CP20/9: Driving value for money in pensions, 24/6/20

ASSESSMENT OF VALUE REPORTS

While the mooted extension of the Asset Management Market Study to insured funds has failed to materialise, VFM is under the spotlight in the Consumer Duty consultation which, as we have seen, will apply to the whole of retail financial services. However it comes about, the direction of travel is clear.

We're focusing on the charges element of VFM here and those charges themselves are easily quantifiable; the value a client ascribes to them is by definition both subjective and experiential.

While we don't want to spend too much time discussing The Great Unpleasantness, it has served to highlight the importance (dare we say, value) of an investment proposition which performs in line with expectations – meaning that even quite severe short-term volatility, as we saw in 2020, isn't a big issue in the context of a long-term investment. This is where advisers demonstrate their value in making sure clients understand these short-term ups and downs, have clear and realistic expectations and aren't tempted to hit the big red button when things look wobbly.

Which brings us neatly to…

INVESTMENT STRATEGIES

Centralised investment propositions (CIPs) continue their march across the investment landscape with a mighty 87% (2019: 82%) of firms that took part in 2020's *State of the Adviser Nation* using one. Their retirement counterparts have some ground to make up at just 56%.

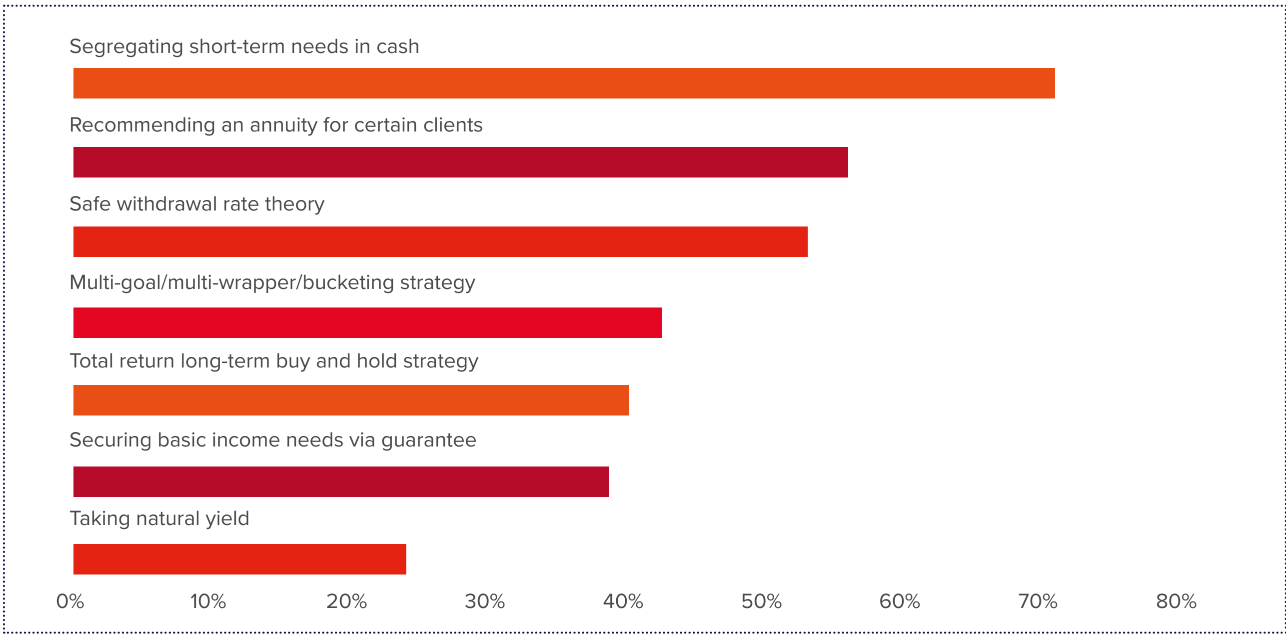
Of that 56% the vast majority view a centralised retirement proposition (CRP) as a process rather than an investment proposition. While the split between the two is broadly consistent with 2019 we are seeing some signs of advisers moving from considering a CRP in whatever form (18%, 2019: 22%) to ruling it out on the basis of client-by-client needs (26%, 2019: 20%).

Which brings us neatly to…

INCOME STRATEGIES

Different avenues will suit different clients. So far so obvious, but the magic only happens if you can access products which enable the most suitable means for your clients.

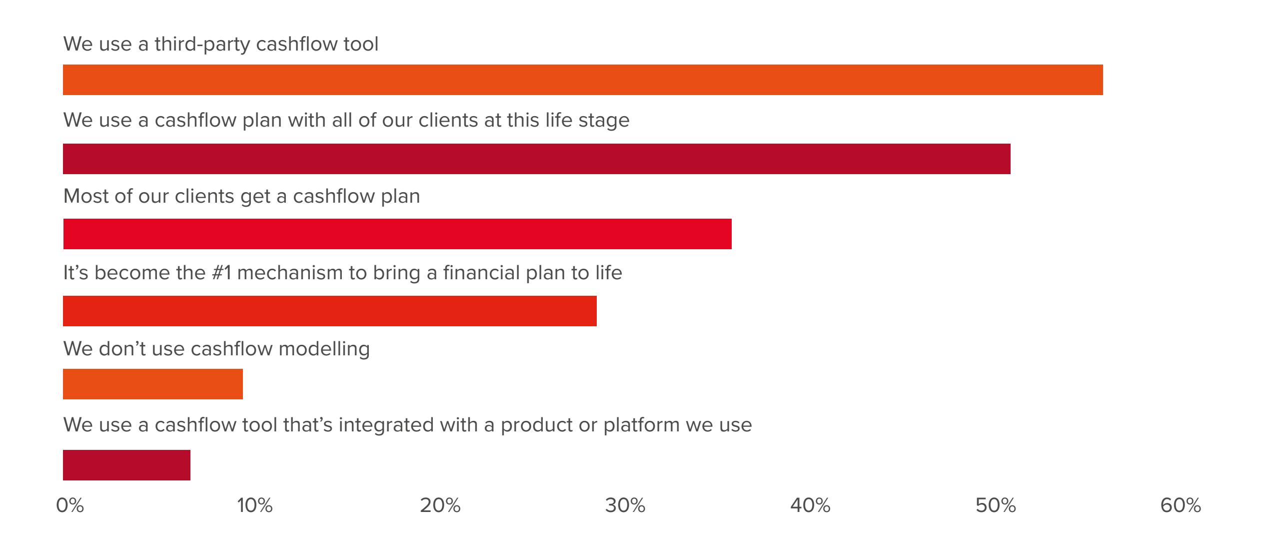
Figure 1.1 "Which of the following do you use to generate and/or fulfil client income needs?"



Two things are very clear here: first that adding together each of the bars highlights that many advisers are using more than one option,[5] second that short-term needs being met by a cash fund is a basic requirement for most. No doubt that served many clients well during a difficult time.

While the picture is largely unchanged from 2019 there is a slight decline in the use of natural income. Hardly a surprise given market volatility during some parts of 2020.

Figure 1.2 "Which of the following statements about cashflow modelling for clients in/around retirement apply to your business?"



The use of cashflow planning tools was also largely consistent with the previous year, with over 90% of respondents using one in some form. There is however a small but distinct continuation of the shift away from integrated offerings (7%, 2019: 4%) to third-party options (56%, 2019: 51%).

Which brings us neatly to…

TAKING INCOME AND MARKET VOLATILITY

This is a big issue and one that has naturally become increasingly pertinent for many since the start of 2020. Here too it's down to the skill of individual advisers employing a range of tactics to support their clients' specific needs and circumstances.

Which brings us neatly to…

THE UNAVOIDABLE COVID-19 DISCUSSION

While we are still not yet through The Great Unpleasantness we are more able to get a sense of its potential longer-term impact on people – specifically those approaching retirement – and their finances.

Data from the Office for National Statistics (ONS) found that workers over 50 were most affected as the pandemic progressed. While younger people have suffered most overall, and particularly in the early stages, older workers had the highest redundancy rate between December 2020 and February 2021 at 9.7 per 1,000, up from 4.3 per 1,000 the previous year. They were also most likely to be working reduced hours and accounted for one quarter of those furloughed in February.[6] According to Scottish Widows' 2021 Retirement Report, 18% of people in their 50s are worried about not having enough money in retirement because of the pandemic. However, 14% have managed to put aside some extra money for retirement.[7]

5. Two-thirds of our sample use at least three of these income methodologies.
6. FT.com – Older workers suffer highest rate of redundancy during pandemic, 4/5/21
7. Scottish Widows – 2021 Retirement Report, July 2021

The pandemic has affected retirement plans in different ways. Separate research from the ONS reported that over 50s who are working entirely from home were more likely to say they planned to retire later than those who don't work from home.[8]

It's important to keep in mind that this is potentially just one factor among many. We have heard of clients deferring retirement as they had to tap into savings during furlough or due to having lost their job; others are seizing the moment and bringing their retirement plans forward. In Scottish Widows' 2021 Retirement Report 28% of respondents stated that their financial situation had deteriorated as a result of Covid-19, 19% that it had improved and 48% that it had stayed the same.[9]

One final thought before we get down to business and introduce our peer group…

ADVICE FEES

The advent of drawdown has fundamentally changed the adviser-client relationship around retirement income planning. Rather than the one-and-done of buying an annuity, the advice relationship is now ongoing – as are advice fees. Not only that, but certain points – approaching and newly retired and then as circumstances change over time – require more work.

FACING UP TO THE REALITIES OF PLATFORM PRICING

Anyone on even nodding terms with platform and provider pricing will know that the advertised price and that paid by advised clients may not have a great deal in common. Special deals are the name of the game and the larger the firm and their assets under influence (AUI), the more special things tend to be.

Whatever your views on the rights or wrongs of that it adds an extra layer of complexity when trying to make price comparisons or project how things might shape up for clients over time.

Our Platform Analyser tool[10] offers a way round this issue for individual firms looking at platforms – they can simply enter the details of the deals they have in place with their platforms and go from there.

When it comes to broader, market-level research – such as we have in this paper – there's nothing to be done but draw with the pencil you've been given. And that's what we've done, with the data tables and analysis all based on platforms' and providers' advertised book prices.

8. ONS – Living longer: impact of working from home on older workers, 25/8/21
9. Scottish Widows – 2021 Retirement Report, July 2021
10. Shameless marketing klaxon.

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 interests of fair disclosure, this is by no means an exhaustive list; it's a representative sample of most of the biggest players in each field.

PROVIDER/ PLATFORM	CORE PRODUCT OR PLATFORM CHARGES (p.a.)	ADDITIONAL ADMIN CHARGES	DRAWDOWN CHARGES
	OFF-PLATFORM		
LV=	Charges are applied to the first £700k of pension, with no core charges above this point. Pension funds: 0.20% DFM options: 0.25% Full SIPP: 0.30% There is a minimum annual fee of £195.		£175 for funds over £37.5k (after PCLS). £295 for funds under £37.5k (after PCLS). Fees apply at each crystallisation event. No fee for DFM or self-investment options.
Prudential Retirement Account	Steps down from 0.45% to 0.25% based on fund value.		
Royal London Pension Portfolio	Headline charge steps down from 0.90% to 0.35% depending on pension value. Cost to access internal fund range is bundled in with this.		£211 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		
abrdn (Standard Life Wrap)	Tiered charge from 0.40% down to 0.15%. If the firm places more than £20m with abrdn then a discount of 0.05% applies to all bands. Drawdown customers can lock in their lowest charge (highest fund value) so reducing portfolio value due to income does not incur a higher charge. Those with over £1m can also lock in a flat 0.15% rate.		
Advance by Embark	Portfolio charge is based on asset value. Tiered from 0.35% to 0.10% for funds of £500k+.	£18.75 quarterly fee for Retirement Account.	
Aegon Retirement Choices (ARC)	Tiered charge from 0.60% to 0.45%, capped at £1,215 p.a.		£75 annual fee.
AJ Bell Investcentre Retirement Investment Account (RIA)	0.25% for portfolios up to £500k, 0.20% on the portion above £500k.		
AJ Bell Investcentre SIPP	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 £45 and £65 + VAT quarterly charge, depending on fund value. Waived above £200k.	£150 + VAT flexi-access drawdown charge. Menu of additional drawdown charges depending on activity.
Ascentric	0.30% down to 0.06% (minimum £180 annual fee).		
Aviva Platform	Tiered from 0.40% down to 0.15%.		
FundsNetwork	Hybrid approach of 0.25% p.a. and 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 above £1m.		
Quilter (Old Mutual Wealth)	Tiered charge based on fund value, from 0.50% to 0.15%.		
Transact	Charge tiers down from 0.27% to 0.05% unless the total portfolio value is less than £100k, in which case the first £60k is charged at 0.50% instead of 0.27%.	£20 quarterly fee for the pension wrapper.	

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 at any given time.
- 'Tiered' pricing is where portfolios are split into chunks, with each chunk charged according to which pricing band it fits into.

THE HEADLINES

- All the providers featured here get the majority of their revenue from percentage-based charges, with each having a variable core charge based on portfolio value.
- There's very little price innovation in the sector – with Alliance Trust Savings absorbed within Embark Group we've lost the one true fixed-fee alternative.
- Prudential, Royal London and Scottish Widows all have stepped charges, the rest tiered.
- Ascentric and LV= both levy minimum fees, protecting their margins from low balances.
- Advance by Embark, AJ Bell Investcentre SIPP and Transact all apply pension administration fees.
- Aegon Retirement Choices (ARC), AJ Bell Investcentre SIPP, LV= and Royal London all have additional drawdown fees.
- Royal London ploughs its own furrow with bundled product and investment costs for its internal fund range. We'll address that in the next section.

INVESTING FOR AND IN RETIREMENT

Let's see how all that detail translates into our patented[11] heatmaps. Core charges are the best place to start, looking at how the product and platform charges alone stack up. We'll take investing for growth first and then add drawdown charges to the mix.

ROYAL LONDON IN CONTEXT

You'll notice that Royal London's figures sit apart from those of our other providers. That's because Royal London doesn't have a 'product' charge as such. It bundles the cost of its in-house funds and portfolios into one overall charge which can't be unbundled.

Our heatmaps here are intended to look at product or platform charges only, which causes a direct conflict with Royal London as one simply can't look at 'product' charges in isolation.

Advocates of Royal London might highlight that you get the cost of its Governed Range included within this cost. Detractors might state that once you step outside of its flagship investment ranges, increased costs can be triggered, particularly once you get into proper SIPP stuff.

We, as independent commentators, have a job here to flag this for what it is, separate it out and colour it purple.[12]

11. Maybe.
12. Because it's funny. To us at least.

GROWTH

Here 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 but you've read that bit already.

	£50k	£75k	£100k	£150k	£250k	£500k	£1m	£2.5m
abrdn (Standard Life Wrap)	0.40%	0.40%	0.40%	0.40%	0.40%	0.35%	0.15%	0.15%
Advance by Embark	0.50%	0.45%	0.42%	0.38%	0.35%	0.30%	0.20%	0.14%
Aegon Retirement Choices (ARC)	0.58%	0.55%	0.54%	0.51%	0.49%	0.24%	0.12%	0.05%
AJ Bell Investcentre RIA	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.23%	0.21%
AJ Bell Investcentre SIPP	0.63%	0.49%	0.46%	0.38%	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=	0.39%	0.26%	0.20%	0.20%	0.20%	0.20%	0.14%	0.06%
Nucleus	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.26%	0.13%
Prudential Retirement Account	0.45%	0.45%	0.40%	0.40%	0.35%	0.30%	0.25%	0.25%
Quilter (Old Mutual Wealth)	0.40%	0.37%	0.35%	0.33%	0.32%	0.28%	0.24%	0.19%
Scottish Widows Retirement Account	0.30%	0.30%	0.30%	0.30%	0.25%	0.20%	0.10%	0.10%
Transact	0.66%	0.56%	0.36%	0.33%	0.31%	0.30%	0.25%	0.15%
Royal London Pension Portfolio	0.50%	0.45%	0.45%	0.45%	0.40%	0.40%	0.35%	0.35%
Market average	0.43%	0.39%	0.36%	0.35%	0.32%	0.28%	0.22%	0.17%

Common sense prevails in this pricing table: costs reduce as portfolio values increase. That's simply how charging structures work – this paper's first citation from the Department of Stating the Obvious.

AJ Bell Investcentre RIA, LV= and Scottish Widows stand out here with consistently lower core charges compared to most of the peer group and the market average. RIA has one of the lowest charges in the group, up until the £250k mark where its SIPP sister takes over.

AJ Bell Investcentre SIPP stands out with reddish hues at the lower end of the scale, along with Advance by Embark, ARC and Transact, by virtue of their respective additional wrapper charges.

We've said this before and make no apologies for repeating ourselves: 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 the product should be discounted. Firms consistently tell us that, of course, price does matter but is rarely the most crucial factor.

INCOME

We now look at the effect over a year of adding any of the main drawdown charges (i.e. activating drawdown, taking a pension commencement lump sum (PCLS) or taking an income) to the base costs from the first table.

	£50k	£75k	£100k	£150k	£250k	£500k	£1m	£2.5m
abrdn (Standard Life Wrap)	0.40%	0.40%	0.40%	0.40%	0.40%	0.35%	0.15%	0.15%
Advance by Embark	0.50%	0.45%	0.42%	0.38%	0.35%	0.30%	0.20%	0.14%
Aegon Retirement Choices (ARC)	0.73%	0.65%	0.61%	0.56%	0.52%	0.26%	0.13%	0.05%
AJ Bell Investcentre RIA	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.23%	0.21%
AJ Bell Investcentre SIPP	0.99%	0.73%	0.64%	0.50%	0.27%	0.24%	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=	0.74%	0.49%	0.38%	0.32%	0.27%	0.24%	0.16%	0.06%
Nucleus	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.26%	0.13%
Prudential Retirement Account	0.45%	0.45%	0.40%	0.40%	0.35%	0.30%	0.25%	0.25%
Quilter (Old Mutual Wealth)	0.40%	0.37%	0.35%	0.33%	0.32%	0.28%	0.24%	0.19%
Scottish Widows Retirement Account	0.30%	0.30%	0.30%	0.30%	0.25%	0.20%	0.10%	0.10%
Transact	0.66%	0.56%	0.36%	0.33%	0.31%	0.30%	0.25%	0.15%
Royal London Pension Portfolio	0.92%	0.73%	0.66%	0.59%	0.48%	0.44%	0.37%	0.36%
Market average	0.52%	0.45%	0.41%	0.38%	0.34%	0.29%	0.22%	0.17%

Only four of our peer group charge additional fees for drawdown: ARC, AJ Bell Investcentre SIPP, LV= and Royal London. Naturally, the effect of this is more pronounced at lower portfolio sizes. We can all feel reassured that arithmetic is continuing to do its thing.

There's been a clear trend in recent years for platforms and products to 'normalise' charges and bundle as much as possible into one overall pension fee. That's a win for simplicity but doesn't necessarily mean the client wins over the longer term. As with so much in the world of financial planning, it depends on each client's individual circumstances.

Royal London's drawdown fees only apply in year one. Come year two, charges will default back to those shown on the previous page. This is a limitation of static pricing tables. Our scenario-driven examples covering a number of years, which we'll get to in a moment, illustrate how the effect of this charge bleeds away over time.

What we've learned so far is clearly pretty basic:

- Charges reduce as fund values increase.
- Some charges are initial-only (i.e. activating drawdown) and so their effect is minimalised over time.
- Capturing the bigger picture means factoring investment costs in.

What we're doing is gradually building up that bigger picture. Time to move on to our in-depth examples...

THE MAIN EVENT: PRICING COMPARISONS BROUGHT TO LIFE

Time to introduce you to our three personalities. We're going to travel alongside each of them as they work with their respective advisers to plan for and then take retirement income. We'll join them at the point of product recommendation, all the way through to their death when we'll see how the various final fund values compare.

PRICING ASSUMPTIONS AND THE UNCANNY VALLEY

Before we go any further, we beg your indulgence for a second.

There's a theory in aesthetics (robotics particularly) called the uncanny valley which hypothesises a relationship between how closely an object resembles a human and the emotional response to said object. It argues that as you approach perfection (the appearance of a human being), you reach a point that is close but not quite there, which triggers unease or revulsion. Or at least a mild case of the heebie-jeebies.

One theory as to why is that it takes only one flaw to bring down the whole house of cards, leaving the observer cold. We think this potentially reads across here and is worth addressing up front.

We know that as the reader of this paper you will have your own set of circumstances. Your own advice fees. Your own investment proposition. You might even have your own special terms with some of the providers. And then throw the wonderful chaos of each and every one of your clients' personal circumstances into the mix. The net result is the sum total of zero chance that one of our scenarios will match any of your clients. But that's not what we're about. Our aim is to bring to life a set of circumstances that illustrates relevant provider comparisons.

In short, don't let the uncanny valley get you down and don't let perfect be the enemy of the good.

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 them.

Personal details – 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.

Current situation – taking PCLS and the rest of his fund is invested in an adviser-run portfolio. 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 – 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 – male, 45, in the middle of a divorce, three children, is self-employed, currently renting a flat but looking to buy a house soon.

Current situation – David has accrued personal pension savings throughout the years from his self-employed trade, but a Pension Sharing Order will reduce his current pension fund value. He has employed the expertise of a financial adviser to help him make the most of this next phase of his life. His adviser is recommending a discretionary fund management (DFM) model portfolio service (MPS) or packaged solution as she prefers to outsource investments.

SCENARIO 1 – 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	0.60% p.a.
Ongoing adviser fee	0.80% p.a.

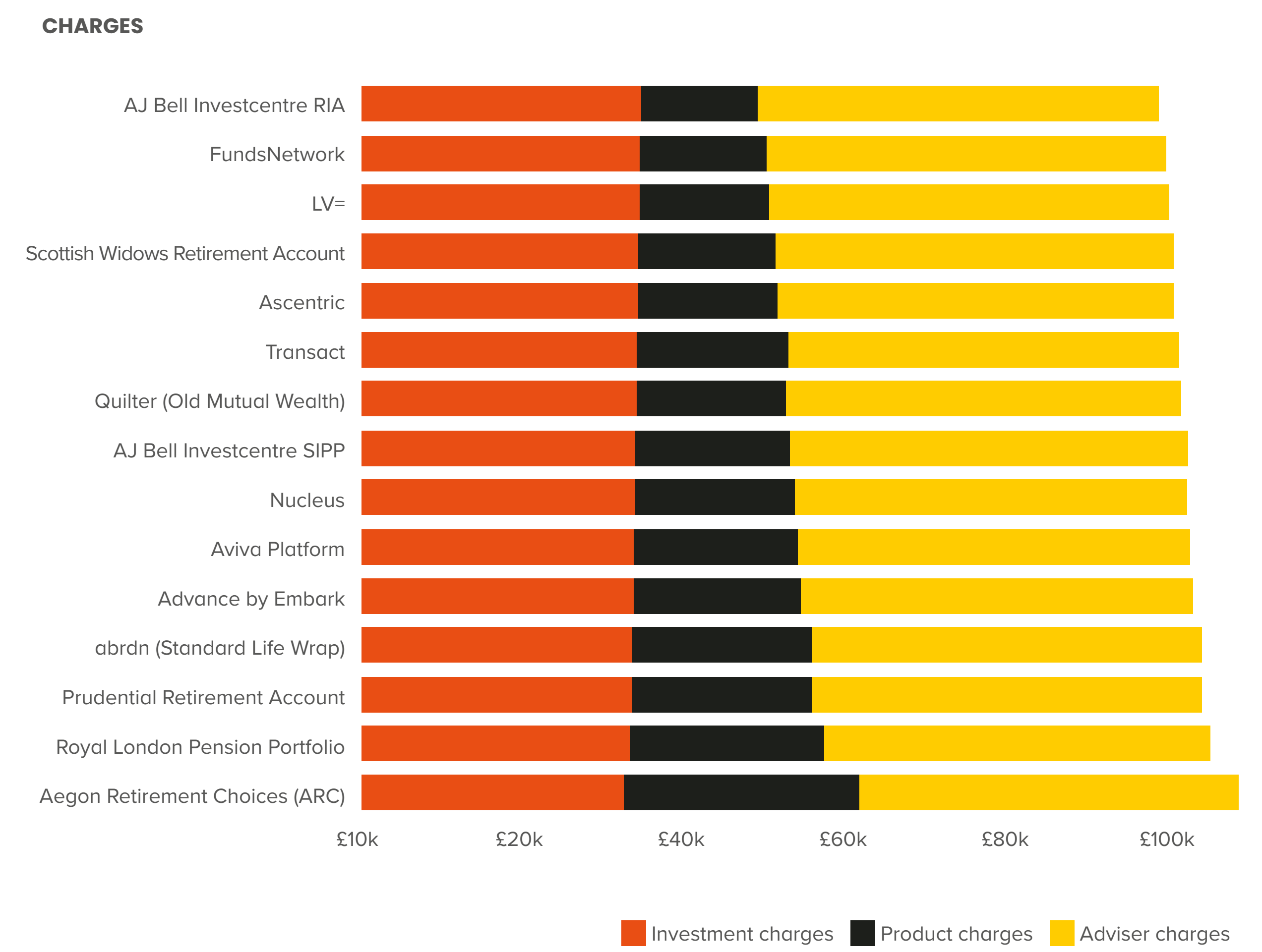
Notes on our assumptions

Clearly, adviser-run portfolios are going to vary significantly from firm to firm. Not to mention the fact that many firms will run more than one range.

Our third wave of *State of the Adviser Nation* asked those running an adviser model to state the typical ongoing charges figure (OCF) of their mid-risk portfolio. The resulting mean average is a shade under 0.60% so we're sticking with that for this scenario.

Ongoing advice costs are significantly trickier due to the variety of models in operation. Again, we're nodding to our ongoing adviser research with a representative ongoing advice charge of 0.80%. Remember what we said about that valley?

	FINAL VALUE
abrdn (Standard Life Wrap)	£79,494
Advance by Embark	£83,105
Aegon Retirement Choices (ARC)	£66,587
AJ Bell Investcentre RIA	£94,546
AJ Bell Investcentre SIPP	£86,821
Ascentric	£89,439
Aviva Platform	£83,692
FundsNetwork	£92,198
LV=	£92,162
Nucleus	£84,422
Prudential Retirement Account	£79,693
Quilter (Old Mutual Wealth)	£86,982
Royal London Pension Portfolio	£75,973
Scottish Widows Retirement Account	£89,686
Transact	£88,333



Gene's investments spanned 29 years until his death at the ripe old age of 84. Gene withdrew ad-hoc income and varying amounts of regular income throughout, with regular adviser reviews and touchpoints to keep him on track.

Looking at the final values we can see clear similarities with our pre- and post-retirement tables: AJ Bell Investcentre RIA, FundsNetwork and LV= have the highest final fund values and the lowest total charges, with Scottish Widows, Ascentric and Transact following closely behind. This is simply arithmetic doing its thing, with this cohort of providers having lower product charges for this scenario, each sharing the characteristic
of not having additional product charges.

For Gene, ARC's core platform charge ranges from 0.49% to 0.55%, the highest in the peer group. Combined with the assumed 0.60% 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 balance, we should point out that had Gene's initial portfolio value been significantly higher, then ARC's annual charge cap[13] might well have resulted in it shooting up our tables here.

As we 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 pay as you go approach to charging.

Time to move on to Dawn.

13. Aegon ARC caps charges at £250k, meaning the effective ongoing charge reduces significantly as portfolio values increase.

SCENARIO 2 – 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.

Assumptions we've made for Dawn

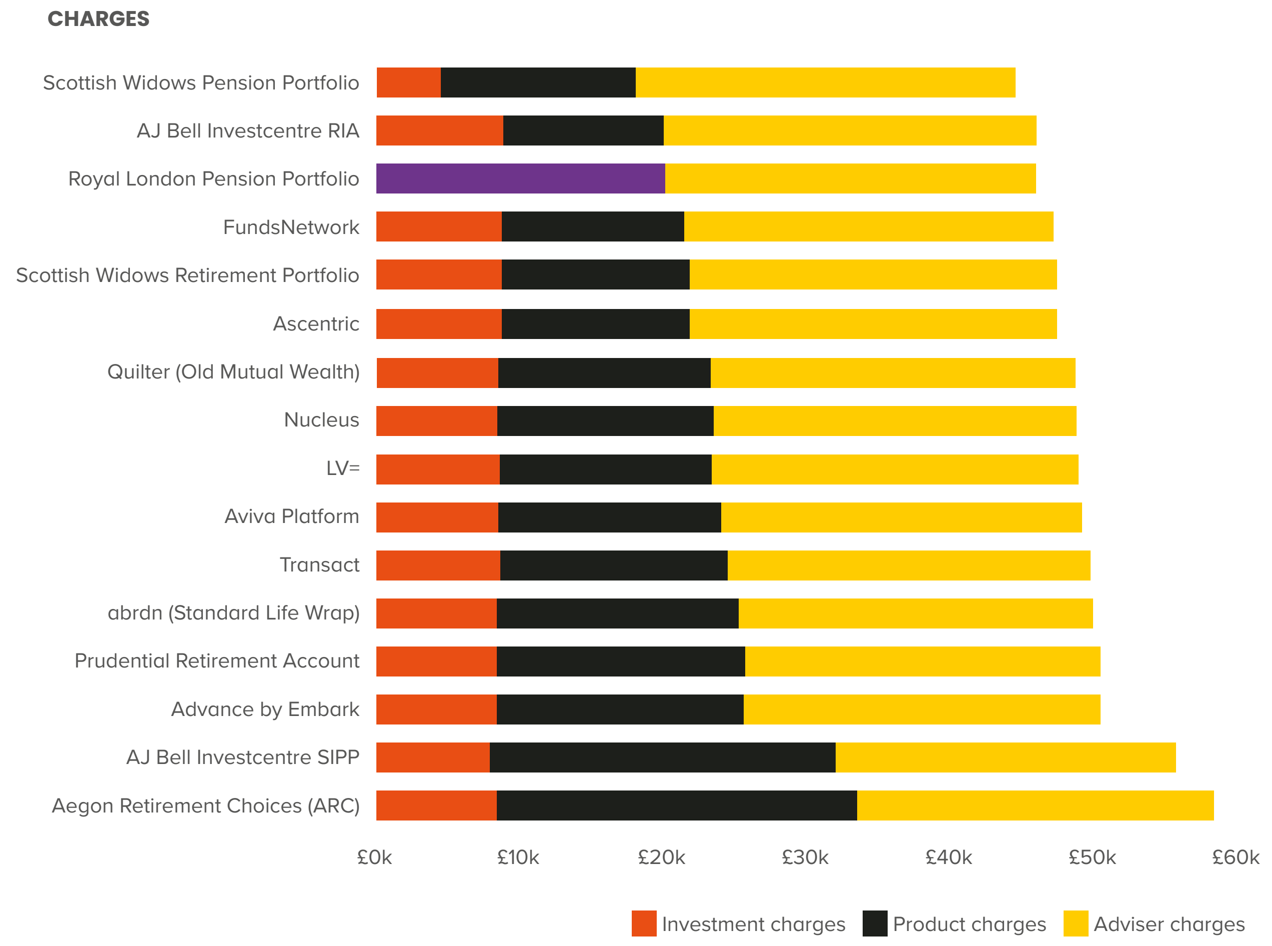
Investment type	Low-cost/in-house/passive fund for sustainability.
Starting fund value	£200,000
Growth rate	5.00% p.a.
Inflation rate	2.00% p.a.
Investment charge	See table
Ongoing adviser fee	0.50% p.a.

Given that this scenario models a deliberately low-cost approach, it lends itself to exploring some of the off-platform in-house solutions.

For those that don't provide an in-house solution we've assumed ongoing investment costs of 0.20%. That's a squidge under the OCF of Vanguard's LifeStrategy range and a pleasing round number. You'll also notice that Dawn's ongoing adviser charge is lower than Gene's and David's to reflect the overall focus on low charges for this scenario.

PLATFORM/PROVIDER	FUND CHOICE	OCF
Royal London Pension Portfolio	Governed Range	Bundled within product
Scottish Widows Retirement Account	Pension Portfolio	0.10%
Scottish Widows Retirement Account	Retirement Portfolio	0.20%
Everyone else	Synthetic Low Cost	0.20%

	FINAL VALUE
abrdn (Standard Life Wrap)	£84,693
Advance by Embark	£84,523
Aegon Retirement Choices (ARC)	£85,838
AJ Bell Investcentre RIA	£100,915
AJ Bell Investcentre SIPP	£67,722
Ascentric	£95,374
Aviva Platform	£88,714
FundsNetwork	£96,851
LV=	£92,996
Nucleus	£89,967
Prudential Retirement Account	£84,160
Quilter (Old Mutual Wealth)	£91,143
Royal London Pension Portfolio	£99,969
Scottish Widows Pension Portfolio	£106,595
Scottish Widows Retirement Portfolio	£95,374
Transact	£90,005



For Dawn, AJ Bell Investcentre SIPP's combination of core, pension and drawdown charges means a much lower final fund value than its peers. There's a real quirk of how year on year charges stack up in the numbers here though – take a look at how Aegon ARC's contract projects the highest total charges but a much higher final portfolio value than AJ Bell Investcentre SIPP. That's down to those drawdown charges within the AJ Bell plan really biting in the early stages of the scenario. In comparison, Aegon ARC's higher custody costs mount up from a higher ongoing portfolio value. It's the kind of thing that probably only excites us and maybe Rachel Riley.

AJ Bell Investcentre RIA fares much better here, with the cleaner structure working much better in Dawn's scenario – reinforcing AJ Bell's intention of targeting this plan at simpler needs.

Sound the sponsorship alarm, we're going to talk about Scottish Widows. The Pension Portfolio fund provides the cheapest in-house passive investment route of the peer group, and so achieves the lowest total charges and highest final fund value. For balance we should say that it's entirely possible for an advice firm to research its own blended passive portfolio with ongoing charges in the high single-digits and achieve ongoing costs in line with the Widows solution. Were we to change our OCF assumption to 0.10% for the remainder of the peer group then the Scottish Widows plan moves to tied third (with Ascentric) in the table behind AJ Bell Investcentre RIA (£112k) and FundsNetwork (£108k).

Using the Scottish Widows Retirement Portfolio funds (which are designed and marketed specifically for drawdown) increases the investment charge to 0.20% p.a. The Department of Stating the Obvious confirms that this naturally results in a reduced final value (compared to the Pension Portfolio funds).

Above all else, what is being brought to life here is how the combined impact of product and investment charges compounds over time, and while we've talked at length about product costs so far, clearly the investment solution chosen is just as big a factor.

Which brings us nicely onto David.

SCENARIO 3 – 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 some PCLS.
56	Remains invested – no income, paying £6,000 p.a.
57	Additional PCLS 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.

Assumptions we've made for David

Investment type	Outsourced but please see the 'apples, pears and long stares' section.
Starting fund value	£300,000
Growth rate	5.00% p.a.
Inflation rate	2.00% p.a.
Investment charge	Please see the 'apples, pears and long stares' section.
Ongoing adviser fee	0.80% p.a.

APPLES, PEARS AND LONG STARES

There's always one. One that doesn't quite fit neatly into a box and causes us to stare at the screen for longer than is healthy. Now, the lang cat was raised on a healthy diet of fair comparisons. Always compare apples with apples or pears with pears (actually it's usually oranges but that's harder to fit into a catchy title). Fruity metaphors aside that means one simple thing – try to standardise all variables across your calculations with the exception of the one thing you want to isolate and compare: in this instance, product costs.

Given the volume of firms that decide to outsource investments for a segment of their clients, it's inevitable that we would model a scenario with investment outsourcing underpinning it. But that left us with a conundrum. How best to compare across a range of contracts that don't offer the same experience? Easy enough with the platform sector. Most offer the majority of the mainstream DFMs, providing their respective MPSs on platforms. Pick a representative OCF for a mid-risk service and Bob's your uncle etc.

Comparing this to the off-platform cohort is trickier though.

Some further lengthy stares later and it led us to debate a wider issue – what does outsourcing actually mean? Spend your life looking at the platform sector and you'd be forgiven for jumping straight on the DFM bus but to us, recommending a packaged provider range or 'solution' is simply another flavour of outsourcing.

After all, the firm is entrusting the day-to-day management and governance of the investment solution to another entity, allowing it to focus entirely on financial planning for that particular client segment.

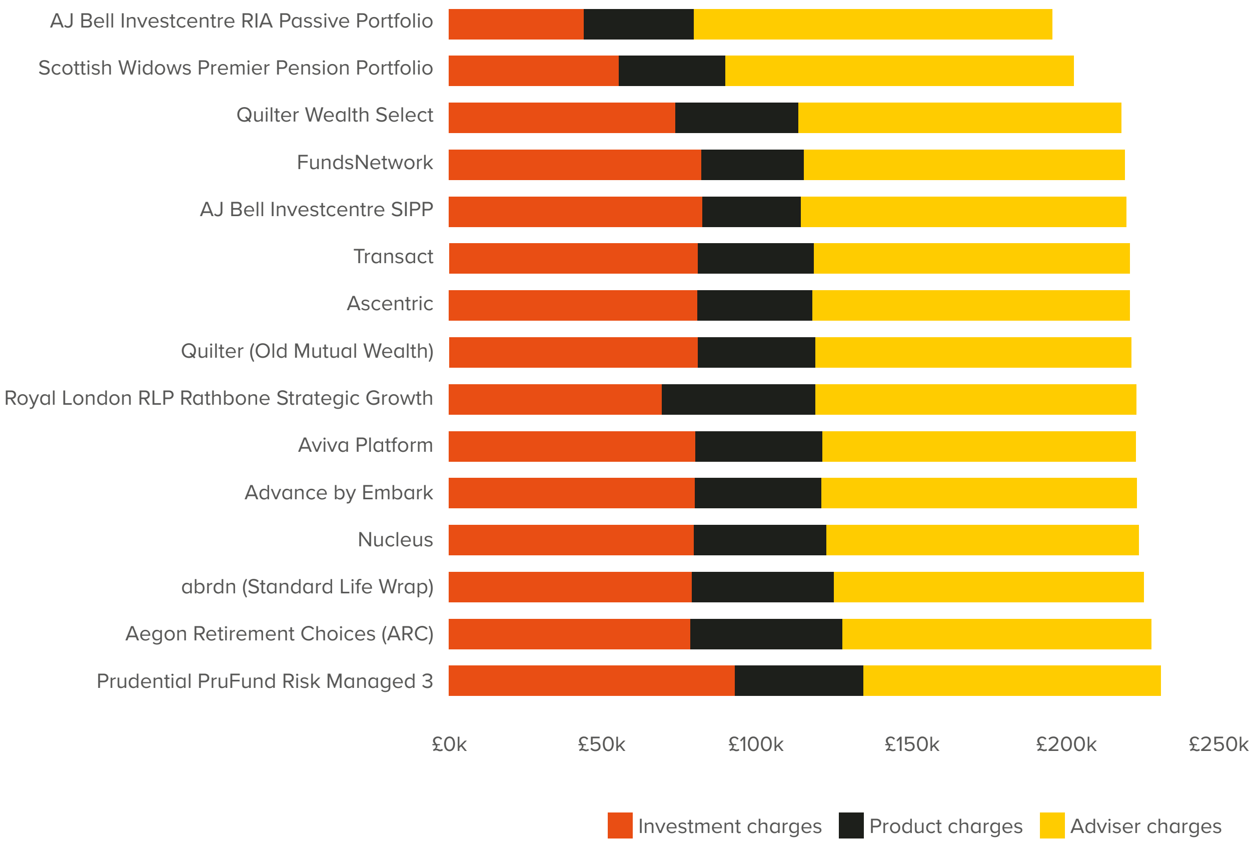
The simple fact is that comparing platform providers and off-platform pension specialists has its challenges, and this is very much one of them. Taking everything into account, here's where we got to with our investment assumptions for this scenario:

- We set aside any full fat, bespoke DFM options.
- For platforms, we assume ongoing investment charges of 0.65% for a DFM, based on the mean average mid-risk DFM MPS solution in our *State of the Adviser Nation* research.
- Where a platform actively markets a range of in-house alternatives to a DFM MPS then we also include them here. Step forward Quilter's WealthSelect range (using Passive Blend 5 with an OCF of 0.59%) and AJ Bell's Passive Portfolios with ongoing charges of 0.31%. Future updates to this paper may expect to include Nucleus' IMX capability once it's gained more traction in the advice community.
- We use one of Royal London's DFM options (Rathbone Strategic Growth with additional costs of 0.56%) whilst also nodding towards its Governed Range in the resulting analysis as a different flavour of outsourcing.
- We use the Premier Pension Portfolio option for the Scottish Widows Retirement Account, with additional costs of 0.40%.
- We assume PruFund Risk Managed 3 for Prudential, with an additional OCF of 0.80%.
- LV= has no obvious flagship range to fit in here and its DFM options are of the full-fat bespoke variety so we omit the Flexible Transitions Account. It does have its Flexible Guarantee fund range but that's a whole different bag of crisps to snack on another day.

It's not perfect, but life rarely is. What is perfectly clear to us though is that this section and its uncanny valley cousin from earlier in the paper are **mandatory reading** for anyone using these comparisons.

	FINAL VALUE
abrdn (Standard Life Wrap)	£133,489
Advance by Embark	£145,403
Aegon Retirement Choices (ARC)	£128,672
AJ Bell Investcentre RIA Passive Portfolio	£260,892
AJ Bell Investcentre SIPP	£167,144
Ascentric	£152,525
Aviva Platform	£144,713
FundsNetwork	£161,556
Nucleus	£140,109
Prudential PruFund Risk Managed 3	£103,401
Quilter (Old Mutual Wealth)	£151,574
Quilter WealthSelect	£167,027
Royal London RLP Rathbone Strategic Growth	£149,082
Scottish Widows Premier Pension Portfolio	£233,861
Transact	£153,355

CHARGES



Imagine charge comparisons as a series of levers. You pull one and it impacts the outcome. If you do this consistently, then the outcome is consistent across your peer group. In David's scenario we've significantly increased the investment and adviser costs from Dawn's and lo and behold, the product costs are minimised in comparison.

But then imagine that the investment lever has its own control panel and the lang cat has gone and twiddled with it when no-one was looking. We see that introducing more investment selection variables results in the biggest variation in resulting figures by some distance. AJ Bell and its Passive Portfolio range tops the table with Scottish Widows second. At the red end we find Prudential and its PruFund multi-asset range. In between, to paraphrase a young Chris Martin (who was surely prophesising about lang cat cost comparison tables) it's all yellow.

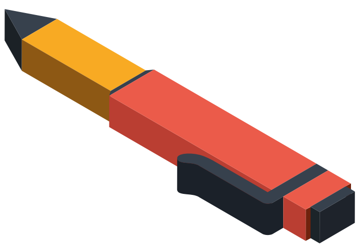
An elephant has been sitting patiently in the room through the first 20-odd pages of this paper. It answers to the name 'Performance'. We've assumed consistent growth of 5% throughout the lives of Gene, Dawn and David to rationalise our comparisons, but of course, life won't play out anything like that whatsoever. Market volatility and individual fund performance will have their sizeable say. And that's crucial to bear in mind. But again, let's remind ourselves that the purpose of this paper is to rationalise as many of the variables as possible and compare core costs and their impacts. If you're looking to model the impact of market volatility then stochastic modelling and cashflow illustrations are your trusted friends.

What this scenario really reinforced in our minds as we wrote it is that VFM, the theme that perpetually permeates the sector, with an even greater focus at the moment, is entirely in the eye of the beholder.

In our last scenario, AJ Bell and Scottish Widows top the table by some distance. Had we illustrated Royal London's Governed Range again here, it would have been three's company at the green end of our heatmap. In all three cases, firms must make their peace with the fact that they're using an investment range inherently linked to the platform or provider. What one gains in simplicity, one loses in portability.

Additionally, our dear reader is no doubt champing at the bit to point out that our synthetic DFM assumptions can quite easily be undercut by many providers in the sector. Lots of DFMs have raced to launch passive ranges in recent times, riding the low-cost zeitgeist. For example, Tatton Investment Management is renowned for its low-cost approach while both Sparrows Capital and Betafolio are attempting to disrupt matters with fixed-fee approaches.

Whichever way you look at it, firms need to throw everything into the mix, whether that's DFM versus provider, active versus passive or mainstream versus disrupter and weigh up their own house view.



SUMMING IT ALL UP[14]

So, we introduced our peer group and looked at the basics first. What their core charges are and what, if anything, they charge for drawdown. We then brought that to life by introducing three scenarios looking at how costs and charges might play out over time.

In doing so, what have we learned? Let's leave you with a few things that have been on our minds as we worked through this project.

1. **Value for money:** everyone talks about VFM and that's clearly our subtext here. Product providers, platforms, asset managers, DFMs, advice firms and the regulator each have their views. As do we. But here's the really awkward thing – the only people who can truly assess whether they've experienced VFM are those who 'derive utility from the service' otherwise known as the customers, the people who fund our glorious sector.

2. **Set the information free:** in a further layer of awkwardness, collectively we tend not to make informed comparisons easy. Terminology can be conflated and charging menus complex – even verging on the opaque. Advice firms do a brilliant job of navigating their way through this but more can be done to help them.

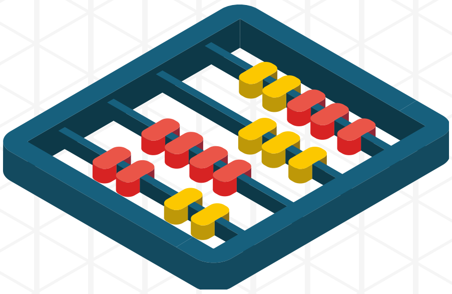
3. **Facts are facts:** here's where we can add to the conversation, offering some food for thought. We can't tell firms what to do (and wouldn't even if we could), but we can do the spade work bringing all the information and noise together and then bring some of these issues to life in a way that is underpinned by facts.

4. **The complexity is in reflecting the market:** on that note, when we say that this analysis is complicated we should be clear on what we mean. The actual arithmetic is the easy bit. Some adding. Some dividing. Even both, at once, if we're feeling daring. The complex bit is rationalising it all and creating fair comparisons that are both grounded in reality and a true reflection of the options available.

5. **Small differences mount up over time:** our analysis for this paper has highlighted that even relatively small differences in ongoing product costs can compound significantly over time. It's worth illustrating the impact of this for different client characteristics.

6. **Investment often makes the biggest difference in pure cost terms:** whether the solution is adviser-defined or outsourced, the adviser's house view on active versus passive and whether they are open to using 'packaged' solutions are all factors that will determine the client's resulting total cost of ownership (TCO).

14. A final nod to arithmetic there.



7. **Let the numbers have their say:** as with any sponsored piece, we insist on the freedom to talk in a wider, more thematic sense about the sector rather than just homing in on the sponsor's products. People aren't daft and our beloved readers can spot a conveniently constructed scenario a mile off. But the numbers speak for themselves. The Scottish Widows Retirement Account and its in-house investment solutions do come out as cost competitive. That's when set against its peers and the wider platform sector and taking into account what we know about typical TCO from our ongoing research.

8. **VFM is about to move up the agenda:** unless something dramatic happens, which we don't think is likely, the Consumer Duty consultation will see VFM assessments extended across the whole industry in 2022. Between that and *CP20/9: Driving value for money in pensions*, the FCA's intentions are there to be seen.

9. **Yet there remains little in the way of innovation in platform and product pricing:** with Alliance Trust Savings now part of Embark and its fixed-fee option no more, we've lost our one true 'alternative' structure. A minority of platforms have charge caps in place, ARC and Hubwise being the most meaningful examples. Only Standard Life (as it then was) has come to market with something different in recent years with its 'lifetime lock-in' option for drawdown customers.

10. **Which all adds up to:**[15] the greatest potential for price disruption, in our view, being in the asset management sector where there is simply significantly more margin to go after.

We thank you for your indulgence and hope you've enjoyed this exploration of costs and charges and their impact over time. If it's given you some food for thought then our work here is done.

The lang cat
October 2021

15. Ok, just one more..

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