WHEN THE LEVEE BREAKS

WHAT NEXT FOR THE UK RETIREMENT SAVINGS MARKET?

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A MARKET ANALYSIS REPORT FROM

the lang cat

'When The Levee Breaks'

If it keeps on rainin' levee's goin' to break
If it keeps on rainin' levee's goin' to break
And the water gonna come in and we'll have no place to stay

Well all last night I sat on the levee and moan
Well all last night I sat on the levee and moan
Thinkin' 'bout my baby and my happy home

If it keeps on rainin' levee's goin' to break
If it keeps on rainin' levee's goin' to break
And all these people will have no place to stay

Kansas Joe McCoy and Memphis Minnie, 1929
(and later, Bob Dylan and Led Zeppelin)

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FOREWORD

Welcome to *When the Levee Breaks: What Next for the UK Retirement Savings Market?* Pop your slippers on, make sure your pipe is loaded with rich, toasted St. Bruno Flake and check the Daily Mail resting on the antimacassared arm of the G-Plan chair is the right one for tonight's telly. Hang on… What…? We're not to do that anymore? What about Lamborghini jokes? We've lots of them. No? But…really? None at all?

OK. So. This is all a bit different isn't it? Bit of a departure for us. A tea-dance foxtrot (sorry) step away from our usual platform nonsense. Well, as Mr Dylan (who also covered our title song) was fond of saying, "The times, they are a changin'". Mind you, he also said "Wiggle wiggle like a bowl of soup / Wiggle wiggle like a rolling hoop", which only goes to show.

We did wonder whether we should bother adding to the deluge of retirement market material that has flooded the market recently. Did we have enough to say to make a report flow? Would it make a splash? Might it sink without a ripple? Do you see what we're doing here? With the title? Water? Levee? Anyway, in the end we decided it would be rude not to, so we dived right in and surfed the waves of market analysis. Dived. Surfed. Waves. We're on *fire* here.

The underlying theme throughout our report is not 'what now?' but 'what next?' That levee has well and truly broken and the market is working through the immediate impact. That's going to take time and the longer term picture is still unclear. Also unclear, as we write, is how the General Election will play out, and what impact that will have on pensions.

You might have noticed something else different about this Guide – we have sponsors. Thanks to GBST for helping us. It's a first for us and we thought long and hard about it. We value our independence above everything but sponsorship means the Guide is available to everyone for zero poonds. We haven't taken any wedge from any provider of retirement products, so what you're reading remains completely unbiased.

So, what do you get for your ticket price of nothing at all?

First up we consider how much things have really changed across the at retirement market. Of course they've *changed*. But have they CHANGED? With that out of the way, we take an in-depth view of some of the unintended consequences of pensions reform. The kind of unintended consequences that sneak into the banana box of change and then jump out and bite the unsuspecting, right in the…kitchen.

You can't step out of the office these days without being asked to contribute to a consultation paper so we take a trot through recent regulatory highlights. We also get low down and forensic with second line of defence, thanks to Scottish Widows kindly sharing their shizzle with us.

You didn't think Platform Man would let the secondary annuity market consultation pass by, did you? Not when it's such a good business opportunity. For consumers, that is. Yes, a good opportunity for consumers. We'll share our thoughts on the subject too. Look out for the lizards.

You know us for pricing analysis #heatmaps, and they're here too. In a market with more products than the lang cat has appendages we also had to think long and hard about the best way to present you with a robust view that didn't involve 500 pages of nothing but heatmaps. No matter how happy that would have made certain members of the team.

Getting back to future-gazing, we look to far-off shores and consider what lessons we might learn from those brave pioneers who are well ahead of us in their attempts to beat annuities to death, and whether all those people really do have no place to stay. Thanks to Paul Resnik of FinaMetrica for his wise words on the subject.

And speaking of people who know what they're talking about, one final thank you to (award winning personal finance journalist) Jeff Salway for helping us write the Guide.

So, slipper boots zipped up? Horlicks ready? Lamborghini fuelled? Sorry, sorry, forgot.

On we go.

Mark Polson
principal, the lang cat

THE GLORIOUS DANCE OF DEATH: HOW DIFFERENT IS LIFE NOW?

Ah, nostalgia. It's not what it was. Or is it? We should be told.

So let's take a closer look at the unholy trinity of advisers, providers and consumers who are bound together in the glorious (clap, clap) dance of death[1] that is the retirement savings and income market and consider how different life *really* is for each of them following the reforms.

ADVISERS

There was a moment in early 2014 when advisers might have dared to believe that the pace of regulatory change had finally eased off. Then, on 19 March 2014, George Osborne lobbed an unexploded mine into the pensions field and in the process gave everyone something new to stress over.

And yet, from where we sit (Leith, slightly overcast), things *have* changed for the better. The availability of highly qualified and professional advice has never been more important for those looking to get the most from their pension pot in whatever form. But the RDR, while raising the quality of advice, has undeniably made it less accessible.

Pension Wise is supposed to bridge the gap by helping those unable or unwilling to pay for advice. Early indications are that the service may struggle to gain traction (at the time of writing calls to providers are massively outstripping those to Pension Wise and public recognition is low). Some advisers have misgivings about the service given its funding sources and, overall, its relationship with the advice community is a tense one.

Then there's the expectations challenge. Drawdown is becoming a more familiar term as it filters though into the mainstream media, but few people are comfortable with the concept and still fewer will really understand the detail. Annuities remain the most suitable option for most people needing a secure income, but all the hoo-ha about pension freedom makes that just seem so, well, booooring.

For advisers it must feel like dragging a small child around a supermarket, trying to keep their eyes on the fruit and hoping they don't spot the sweets at the checkout. That might involve being assertive with clients in a way that might make advisers feel uncomfortable and facing some difficult decisions when the client sticks to their guns. The government's telling them they can be trusted to make their own decisions – why should they listen to their adviser? Good luck walking that particular highwire.

GAP OR NO GAP?

The FCA said in December that it had found 'little evidence' that the RDR had widened the advice gap. The latest Heath Report reached a very different conclusion, claiming that 3.5 million clients have lost an adviser who had already left the industry, with a further 3 million being attached to an adviser who can no longer service them.

We think Heath is closer – but that the issue may be transitory while new advice propositions come to market ... and that's a whole different subject.

1 With apologies to Roger McGough for including his glorious verse in a dreadful pensions publication like this.

In general though, wasn't it ever thus? A good percentage of any adviser's job is protecting clients from themselves. Pension reform is simply one to add to the list. So yes, there is more to do, but at the same time, this change may finally be the nail in the coffin for many of the old pension policy classes which hang like an oversized clock around the neck of the hype man that is…oh, never mind, we've stretched that one as far as we can. We have no doubt here that if there is any sector of the industry that's able to suck up pension reform and deal with it in an adult fashion, it's the advice sector.

Let's move on to those with a little more to do.

PROVIDERS

Like a runner on a treadmill with a sadistic personal trainer, providers in the life industry are clinging on in the forlorn hope that it surely can't go any faster.

The pensions industry should be pretty adaptable by now. Anyone that lived through A-Day has surely earned their stripes.

But it's different this time. The bad news is that when concurrent developments are chucked in – such as the sunset clause, new governance standards, the introduction of Independent Governance Committees and a 0.75% charge cap on DC schemes used for auto-enrolment – you have a situation where resources are being stretched to breaking point. Innovation? Good one. Funny.

The issue here is that none of what we're talking about has anything to do with attracting new inflows of pension monies, unless your job is to convince your board to keep funding your product development plans, in which case get the Big Four in, do the 150-slide strategy deck and enjoy yourself. It's later than you think.

What it does have to do with, however, is the very guts of every system you've ever built. The ones where 'money out' was the last priority, and where the world worked in an orderly way, where people stuck to NRD and behaved themselves. The thing about pensions reform is that it hits every unglamorous point, and none of the glamorous ones. It's like a Greek tragedy: the tragic flaw of the pensions sector is that its cash cow – its back book – has depended on stability of assets, and a steady glide path down of outflows. That set of assumptions just frothed at the mouth, and Tommy Kirk is about to take it out behind the woodshed. You might need to Google that if you're in your twenties or thirties.

We should now have a moment's silence for those providers who specialise in annuities. Several are now paying the price not only for failing to make the market work more effectively, but also for failing to anticipate where that might leave them in the long run. Cash flow, assets and income all take a massive hit in the new world, especially for providers with books full of small pot holders who are likely to simply take their cash and either spend it or venture into the Wild West. Hang on to your Stetson, because we'll be talking more about that in the next section.

Anyone prominent in the annuity market saw their share price take a shoeing as the sun set on Budget day 2014. Not surprisingly, the depth of this plummeting and the extent of subsequent recovery has been linked to the scale to which the business depends on annuities. Or did.

PROVIDER	SHARE PRICE 18 MARCH 2014	SHARE PRICE 19 MARCH 2014	SHARE PRICE 10 APRIL 2015
AVIVA	457.68	434.13	530.00
JUST RETIREMENT	261.38	150.48	166.90
LEGAL & GENERAL	213.88	195.97	278.85
PARTNERSHIP	308.53	138.22	141.00
PRUDENTIAL	1,313.78	1,285.94	1,716.00

Share price is closing price, adjusted for dividends and splits

If you were diversified pre-Budget, you've bounced back. But if you weren't – well, the upslope is steep and it isn't levelling out yet.

The prospect of a second-hand annuity market may be a branch for some to grasp at. Yet they'll know in their hearts from the consultation paper that even the government (away from the front-end spin machine) knows it's not a straightforward idea. The eventual rules, should the market become reality, will (we think) be so restrictive as to render it a cottage industry.

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Mass, unplanned outflows of assets. Previously advised clients wanting counselling but no ongoing relationship. Systems that can't keep up. New guidance on guidance and advice. Auto-enrolment. While advisers have it tough, we'd argue that providers have more on their plate than anyone else in our glorious (clap, clap) dance of death[2].

Oh, and they should probably dismiss any crazy notion that someone might finally stop shifting the damn goalposts. Those posts never stay in one place for long, as providers know only too well.

CONSUMERS

Consumers arguably get the most benefit of pension reforms, but they're worst placed to really *get* what it's all about.

Bigger, richer and smarter folk than us have already been out with the clipboards bothering shoppers or disturbing folk watching *Masterchef* about their views on pension reform, so rather than doing more of that, we thought we'd take a look at all those other surveys. In the research game this is called meta-analysis, which sounds cool. Totally meta.

So what do we know? A few prominent themes did emerge:

- Most people want a guaranteed income from their pension pots, even if they're not planning to buy annuities.
- Then again, an awful lot of people have no plans at all for their pension pots, even those about to retire.
- This is partly because understanding of the reforms and their implications remains low. But then if providers still can't get their heads around it, what chance the man in the street?

- There's no great appetite for raiding the pension pot and taking all the cash, but plenty of people will be drawing decent chunks of their pension.
- Drawdown will be popular, but a lot of people plan on getting their cash out of their pension and investing it elsewhere. This presumably includes those wanting guarantees and downside protection.

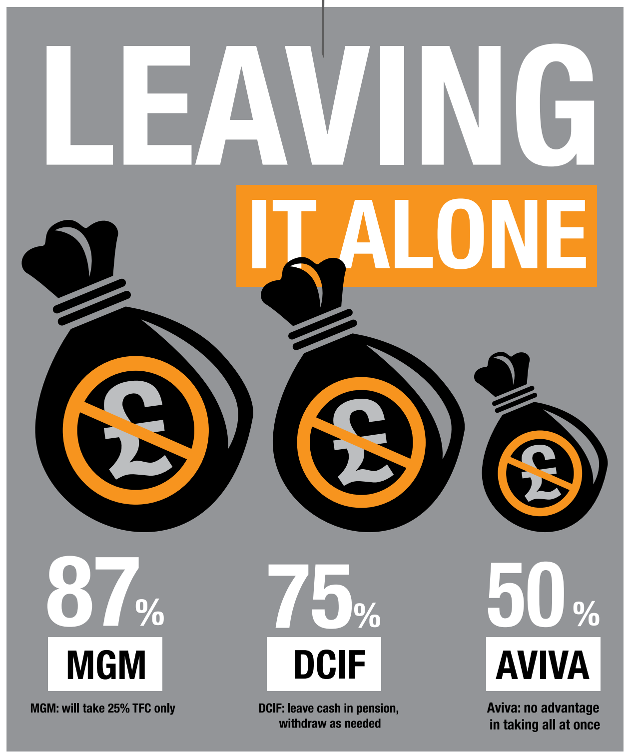
ACTION

Let's take a closer look at some of that research, starting with what people actually want (or intend) to do with their pension pot.

Views as to how many are going to take the money and run are split but the highest estimate that we found is 25%.

Where cash *is* heading out the door, it may not be going all that far. For instance, of the 17% **BlackRock** found to be intent on clearing out the fund, just over half intend to invest for income with the remainder staying in cash.

2 Done it again. Sorry, Roger.



However, there's still a strong preference for leaving well alone beyond tax-free cash or ad-hoc lump sums.

Fidelity's research, back in September 2014, looked in more detail at those retiring in 2015. Of the 54% expecting to take at least some of their pot as a lump sum, 37% are targeting the tax-free cash portion, 11% reckon they'll take a bit more than that and 6% will grab the lot (rising to 7% of people polled by **NEST**).The pension they don't take in cash will be chucked into drawdown, 23% and 20% told Fidelity and NEST respectively and another fifth will combine drawdown with an annuity. Just 16% simply plan on buying an annuity, according to both Fidelity and NEST.

Consistency is good, but we rather suspect these guys might have huckled the same harassed pool of pre-retirement savers.

While people want to be able to access their fund as and when they choose, the overriding concern among over 55s is security and consistency of income for the duration of their retirement.

TOP FIVE GOALS FOR PENSION SAVERS 55+

(Source: syndicated survey by YouGov for Deloitte)

What does all of this tell us? Well for one thing, it seems the nation's over-55s have been subjected to more random questions than that bloke who once went for a BBC job interview and ended up being interviewed on telly about a court case. It also reveals the degree of uncertainty among consumers as to what the pension reforms mean and how they should respond. Guaranteed income good, annuities bad; pensions freedom is good, so is security, and so on. If the research we've seen so far makes one thing abundantly clear, it's that there's a huge amount of uncertainty out there when it comes to retirement options.

Some people reckon the shake-up won't make any difference to their plans. The extent to which this is the case depends on who's doing the asking, however. The **FCA** found that 45% of those who were yet to retire had changed their mind about how to manage their pension as a result of the changes. Yet, only 15% of **Fidelity's** respondents are reviewing their plans in light of the changes.

It seems that a lack of certainty and confidence in decision making might lead to paralysis rather than the predicted exodus. **LV=** found 55% of respondents undecided on how to take income under pension freedom, with 25% waiting to see what new products emerge. Patience is indeed a virtue.

ADVICE

Recognition that professional advice would be handy in navigating the retirement income minefield seemed to grow as 6 April grew closer, with **Fidelity** reporting an increase in respondents planning to see an adviser from 35% in June 2014 to 41% in March 2015.

KNOWLEDGE

The extent to which people see the reforms affecting their plans may reflect their comprehension of what's happening. Only half of the DC members polled by the **International Longevity Centre (ILC)** had a good understanding what an annuity was, but 35% claimed to know what income drawdown was about. That's more than we would have expected and we'd question how many of them *really* know as opposed to just being familiar with the term.

More than half of retirees admitted to Fidelity that their knowledge of the new rules wasn't too good. That might explain why more than a third of those who expect to withdraw all or part of their pension pot plan to stick it in cash, even at the current low interest rates. Confusion over the tax implications of pension pot raids provides additional cause for concern. Just one in five DC members understands what their marginal tax rate is, said the ILC, making it unsurprising that one in 10 thought the best tax mitigation strategy would be to take their pot in one go.

And that's the big risk. Guaranteed income and security remain a priority but pulling your fund out of a pension and sticking it in cash isn't how you get there. We come back to advice and accessibility thereof for those who need it but don't have the fund to make it worthwhile.

CONCLUSION

It strikes us that there's an irony in all of this. Our industry has been Olympic class at obfuscation and complification (we maintain that's a real word) for so long – in the interests of chiselling a little more out of pension savers in particular – that we have created structures and products the like of which mankind was never meant to wot of. Only actuaries even pretend to understand this stuff. And now, when we give the people who were given the fuzzy end of the lollipop the chance to get the hell out, they want to.

But we are hoist by our own petard; providers are now hamstrung by the very complexity which protected VIF and PVNBP and all the other made-up measures that we used so we could pretend the legacy world, with its commission and its churn, was viable.

So is life really different now? Our friends in adviser firms and providers have an understandably bullish view. It's a new dawn. A new age has sprung. But all that is built from a world-view which hopes, hopes against hope, that allowing people to get money out of a broken pensions system will encourage other people to put more money into the same system. We have a suspicion that if we were to go and do some clipboard work, the phrase 'a plague on all your houses' would have some resonance.

Life *is* different now – especially for providers of back-book pensions, and of course for clients. Advisers will do what they've always done (if they're any good) – put the client first and deal with the product landscape as a necessary evil, a bit like flossing.

THE LANG CAT'S THIRD LAW OF EMBUGGERMENT

We are what we are, us humans. We want what we want, and need what we need, preferably now. We're also venal, greedy and lazy, and will take the path of least resistance to get it.

Unfortunately, some among us are also, er, *entrepreneurial*, and not necessarily moral. Now the levee has broken, all kinds of new vagabonds, cutpurses and ne'er-do-wells are hoving into view.

So in this section, then, we'll look at what we think are five of the more unfortunate unintended consequences of the new freedoms. We invoke here the lang cat's Third Law of Embuggerment, which states that any given piece of financial regulation or legislation will *always* bump up a client's total charge load, even if it's meant to cut it.

1. THE WILD WEST

Steve Webb's been a good pensions minister. But what he'll be remembered for is his Lamborghini moment, when he insisted that people could spend their newly liberated pension cash on whatever they liked. Quite apart from inflicting brand damage to an extent not seen since that time Tony Blair pulled on a pair of Levis, this wasn't a helpful statement.

For one thing, the notion of the nation's wealthier baby-boomers using their pension pots to connect with their inner Jeremy Clarkson is, frankly, disturbing. Also, a horse might have been a more appropriate mode of transport, given the scope for all manner of Wild West banditry under the new rules.

The Wild West was all about the spirit of freedom and operating on the periphery of authority. By liberating retirees from the yoke of providers the reforms might allow many of them to prosper. The changes should be a Good Thing for a lot of people. But by removing a fair bit of protection they also have the potential to be a Bad Thing. We have heard of nuance, and have no truck with it.

Consider this: consumers have heard about the whole pension freedom thing and quite fancy getting their hands on their accumulated hard-earned. But it's tricky isn't it? All that paperwork and the phone calls and deciding what to do with it. And yes, you can get advice, but that's expensive isn't it? And then comes the phone call, or even one of those adverts on ITV3, offering to take the whole thing out of your hands. Turn your pension pots into one lump sum for a small fee. No fuss, no muss. For those paralysed by the thought of all the hassle this might be well worth the 2% or whatever they're charging.

None of this can happen without a SIPP scheme to catch the monies, and this is where much of the real defensive work will need to happen. We think SIPP providers – large or small – need to ask themselves these three questions:

- Are you comfortable with the source of these assets and the process of how they have reached your products?
- Are these the right customers for you, or should you point them in the direction of something more suitable?
- Can your systems and service levels handle the extra business coming in without falling over?

Some mainstream drawdown providers have introduced or increased charges for clearing out drawdown contracts set up after the 6 April, effectively protecting their business model and consumers against this type of scenario. While we're not a fan of exit fees, these are reasonable and we can see the logic behind them.

These questions are just the beginning, because there are a lot of new issues for platforms and SIPP firms to think about as they watch their AUA numbers swell. They can succumb to the temptation to cut corners and get assets in more quickly, or they can take the long-term view and in doing so help protect consumers by keeping the cowboys out of town.

2. THE DUTY OF CARE VS SELF-PRESERVATION SMACKDOWN

Advisers have as much to gain from the new pension regime as any part of the industry – but the same caveats apply. The challenge of somehow servicing increased demand while maintaining the integrity of your business model, doing the right thing for the client and keeping to the letter and spirit of regulation is a formidable one.

Take, for example, someone that wants to draw a lot more cash from their pension than you think is wise, and not only for tax reasons. They threaten that if you advise against their wishes, they'll take the DIY road, even though you know they don't have the required knowledge or experience. Doing the right thing means recommending the most suitable option. But if you bend to the insistent client's will, you might at least prevent them from inflicting even more long-lasting damage on their retirement finances.

Advisers should be clear on what to do in such a scenario: as Keith Richards of the PFS said, 'walk away'.

But how many times can you do that? How many clients can you allow to leave? How many times can you block client wishes without driving them away? What if they've been on your books for years and have been paying ongoing adviser charges – does that change anything? Will the regulator start asking questions if too many clients do choose to go against your advice? Do you have a minimum fee caveat on your literature and website for retirement advice? Should you? Why do we use so many rhetorical questions?

Just to add a little further cheer, neither the FCA nor the Financial Ombudsman Service (FOS) recognise insistent clients in paid-for financial advice. So, if you think tucking an IC declaration into the file will protect against future problems by itself, think again. This point was clarified in the context of DB to DC transfers but it stands for any advice event.

So, how can we make concord of this discord?

Wording.

Yep, wording.

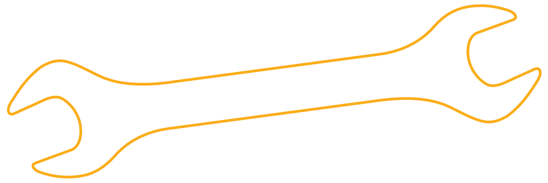
Or, smarter suitability wording. Effectively communicating what's best for the client in a way that makes sense to them. Doing this in tandem with a decent risk profiling exercise will make it easier, especially if it covers the client's psychological willingness to take risk, their risk capacity and long-term objectives.

Be specific: relate it to their own concerns and objectives. How would the client feel about reaching, say, 80 and having to worry about paying the bills? How unhappy would they be if they were unable to leave a planned inheritance? Such an approach still plays on fear, of course, so getting people to visualise more aspirational possibilities is vital too. Want to eat out once a week or enjoy a weekend away every month? Then what income would you need for that to be sustainable? Real world stuff.

This isn't about 'jam tomorrow', it's about not putting the jar on the edge of the shelf so it breaks all over the floor.

Presentation is important too. A barrage of negative stats might be counterproductive, so keep it concise, positive and completely free of jargon. No pictures of happy old people on the beach. And probably not being kneecapped by a loan shark either.

And here – yours for free – is our top tip on this particular subject: go through your wording with someone who doesn't work in the industry. There's a big difference between the average pension provider or adviser's idea of plain, jargon-free language and the 'normal' person's idea of what 'clear and easy to understand' looks like. If you've been in the industry for more than six months you might be amazed at the extent to which it's corrupted your vocabulary. UFPLSs, anyone?



3. MAYBE HIT IT WITH A BIGGER SPANNER?

Providers are no strangers to change, having made it through A-Day and then the RDR. They were both pretty big at the time but this all makes the RDR look like a subtle tweak. It really is quite the disturbance. Pension freedom is, in short, one massive headache. Particularly for life companies.

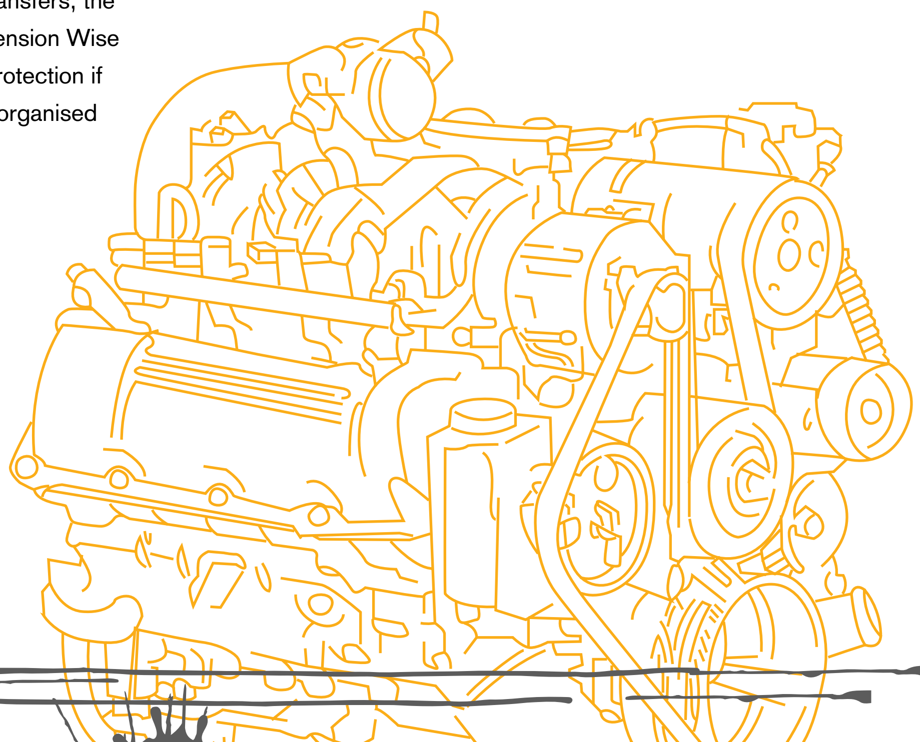
Why so much? Well, this time it's not just about products, distribution or getting assets in. It's largely about ways of money leaving the premises. Yes, we're talking about the grubby, grungy and not-at-all shiny back office stuff. How do you make money from that? And crucially, how do you sell the need for IT resource and budget to drag the infrastructure up-to-date to facilitate assets moving off the books?

For some, there is a decent chance that the changes will present opportunities for inflows in the form of consolidation. Even then margins on flexible access business look distinctly ordinary to us, however, and certainly nothing like those on annuity books.

New legislation was being published right up to day zero, including some pretty crucial pointers on DB transfers, the consultation on cashing in existing annuities, Pension Wise and the second line of defence (or additional protection if you prefer). All this while trying to get the tech organised and in working order. This is (and will continue to be) a bigger challenge for some firms than others – most notably those with big legacy books.

So if someone comes along brandishing a 1995 policy and asking about this new flexibility they keep reading about, what happens? Chances are that their contract just isn't compatible with this brave new world. An internal transfer to a newer, post-millennial plan might be the easiest way out, but even that will be beyond the wit of some internal systems. There may be a cost to the client and certainly a hassle factor. We're back to duty of care versus resource and profitability.

But, everything else aside, some people had waited long enough and were chomping at the bit by the time 6 April came around. They're not going to hang about when they do finally get their hands on their cash, especially if the service has been a bit rubbish. Off to see the wizard they go, skipping down the yellow brick road marked Freedom and, in some cases, towards a proper fleecing.



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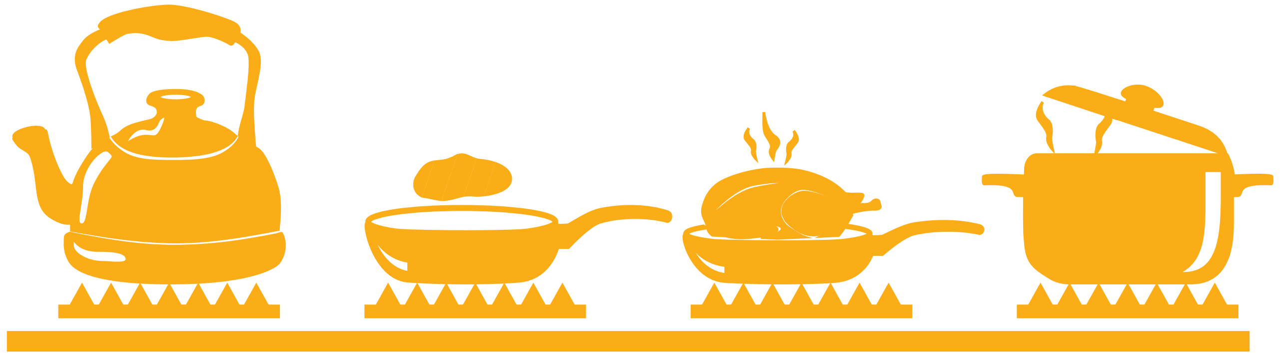


4. MOTHER HUBBARD GETS AN AGA

High-end car dealers aren't the only ones excited about the latest pension reforms. Ikea and Homebase are apparently feeling pretty good too. And with some justification. Hymans Robertson reckoned that some £3bn of the estimated £6bn cash taken out of pension pots in the early months of the new regime would be spent on home improvements, cars and the like.

That's fair enough, because a lot of those dipping into their pensions to buy kitchens and conservatories will have pension pots too small to buy a decent income from an annuity. In 2013 the average pension pot used to buy an annuity was £33,670, according to the FCA, while the ABI puts the average pot at £36,000 (where no benefits have been taken).

Fair enough, of course, until you remember how long it has to last. Stat break:

- One in four people is likely to live for 30 more years once they've hit 65, Partnership Assurance research suggests.
- Men and women underestimate their life expectancy by five and eight years respectively, Hymans Robertson found.

The pensions minister (at the time of writing) is remarkably relaxed about this. "If you take your pot of, say, £30,000, and you do spend it over 10 years, have you run out early or have you exercised precisely the freedom we wanted you to exercise?," he asked. "You enjoyed it and then intend to live on your state pension and, perhaps, other savings. Is that the wrong outcome?" We'll leave that one with you.

Is it ok to tell people *not* to spend their pension cash when they've been diligent enough throughout their working lives to build up it up? It might not be wrong but we don't see it going down well. Our suggestion is to reframe it. Take the example of someone spending half their pot on a new kitchen. That's fair enough, but not if it means they won't be able to cover the weekly food shop further down the line. There's not much point in having a flash new kitchen if there's no food, or if they can't use it because they haven't paid their gas bill.

No one wants to blow their pension too early, unless they're really daft or have a highly optimistic view on the state pension. But it does happen – it's a common occurrence in Australia as we'll see later on and they've been doing this pension freedom malarkey for years. The problem lies in the understanding of how long it can last at the rate at which it's taken and spent.

Those clever number crunchers at Hymans Robertson had a good idea; a pension statement 'traffic lights' information system like you see on food labels. Or endowment policy statements (not sure if they come in green, though). It may sound simplistic, but it's barking up the right tree.

It seems fair, then, to give the last word to Hymans who conclude that failure to innovate in this area will mean that "many who have saved conscientiously for decades with us will then overspend out of ignorance".

5. LIFESTYLING: SOOOOO PRE 6 APRIL 2015, DARLING

It was pretty clear that lifestyle strategies as we know them were effectively obsolete before George Osborne even finished his 2014 Budget speech. Anything obsolete must be replaced, ideally with highly lucrative alternatives, and fund houses aren't known for looking gift horses in the mouth. We don't see them starting now but they still have a few jumps to clear before reaching the final furlong. Enough of the horse theme, it's getting filly.

(Source: Hargreaves Lansdown)

So, there's a significant amount of bunce in lifestyle funds but the classic de-risk from equities to bonds on approach to retirement strategy is designed for the 'cliff-edge' of annuitisation and so is just not fit for purpose post-April 2015 (if it ever was). Having your pension in annuity-matching bonds at retirement isn't much use if you're planning to keep your pot invested. If bonds display any kind of correlation to equities in future, they don't help you if you want the cash either.

In other words, if the landing site is changing then the glide path has to be tweaked too.

However, most workplace and personal pensions still default into lifestyle strategies, including NEST (which is reviewing things). Research published in October 2014 by Pensions Insight magazine found that 74% of DC schemes still used lifestyle strategies, 70% of which were reviewing their default options following the Budget. That alone is a game-changing opportunity and one that clearly tilts the odds in favour of asset managers able to offer glide path options more suited to investor needs. Factor in even cautious CAGR and margin and we're talking serious revenue for those who can get the proposition right.

Asset managers were taking more interest in the retirement income market even before the Budget, not least in recognition of favourable demographics (by 2050 almost one in four Britons will be over 65, according to the OECD). Now the demands of that market will favour asset managers even more, with increased focus on risk-based outcomes.

Those with experience in markets such the US, Canada and Australia should be feeling particularly smug.

The glide path may be changing but working out where it should now lead to, and how to get there, is the challenge facing the fund industry. They might have the kit, the experience and the strategies, but do they know the DC market well enough? In other words, and paraphrasing Ghostbusters, they have the tools but do they have the talent?

Possibly not, which is why some asset managers are currently spending a fair bit of time and money developing a deeper understanding of the 'end investor'. Those that are ahead of the game in this respect are typically the fund houses with US parentage (Fidelity and JP Morgan spring to mind).

Firms of that ilk also have valuable experience in strategies that would appear tailor-made for the newly liberated DC market. Multi-asset funds are already dangerously close to being flavour of the month, but you ain't seen nothin' yet. Their built-in diversification and downside capital protection would seem to make a lot of sense for pension investors, particularly those paying an income.

Multi-asset funds are massive in the US and in the UK institutional market, being held by more than eight in 10 UK pension funds, according to Barings, up from 65% in 2013. In our retail space they're still in their infancy, but that's changing. The big players in this market, such as Standard Life Investments, Aviva Investors, Schroders and JP Morgan, have been joined since the Budget by others including L&G, BlackRock and Threadneedle.

Target-dated funds will get a look in too, having become a big deal across the pond. Some fund houses see them a natural successor to lifestyle funds, with the glide path of a target-date fund designed around drawdown instead of annuitisation. The idea is that asset allocation and weightings are adjusted in line with the investor's risk profile on the glide path to retirement. There's a similar ploy at work with income targeting funds, with Birthstar among those doing interesting things.

This probably gives us a clue as to what providers of lifestyle funds might do next – adapt their existing strategies to base their lifestyling on different member segments and their pot sizes.

This is the chance for asset managers to get some skin in the game. But they need to know who they're dealing with (and the outcomes they want) and they have to get the distribution stuff right.

REGULATION FOR SHORT ATTENTION SPANS

You don't need us to remind you of the unmanageable amount of papers and updates in circulation. How on earth do you keep on top of it all?

EASY. You simply turn to Leith's leading independent platform, pension and investment consultancy[3]. We got your back on this, as we do on so many other things.

We took a total of 540 pages across 10 consultation papers, guidance papers and supporting research and fed them into the patented lang cat Informational Condensing Facilitator (with bi-directional upgraded shredding module). And hey presto – a couple of pages covering (what we think are) the important bits and a few self-test questions for those of you who haven't read a text book in the last couple of weeks and miss the helpful structure to guide an otherwise uncontrolled thought process[4].

WORKPLACE SAVINGS

Two big things loom on the horizon – **DB to DC transfers** to access pension freedoms and **auto-transfers**.

DB-DC first. Finding the right balance between protecting the best interests of members who choose to transfer and protecting the scheme itself for everyone left behind is the dilemma at the heart of the consultation document: *DB to DC transfers and conversions* from The Pensions Regulator. It states that "trustees have a duty to act in the members' best interests" but with interests divided it's not that straightforward. Far from it.

The paper suggests that advice for those with pots above £30,000 might be a must. But many a mickle maks a muckle, as you know, and it's going to be those pensioners at the smaller end of the CETV scale who'd rather have the fund than a miniscule pension each year. Then we have the new requirement for trustees to check that a member has obtained "appropriate independent advice" before carrying out a transfer.

This is more of an admin capacity threat than one of stripping out schemes. There are many reports of transfer request bottlenecks – how many of them will come to fruition with the double challenge of protecting the member and protecting the scheme? Based on the magic words "we believe it is likely to be in the best interests of the majority of members to remain in their DB scheme" there had better be a very solid and extremely well documented case for transferring out.

As far as we can tell, advisers are (sensibly) reacting by declining to touch the whole situation with a ten foot pole. We don't blame them but where does that leave the ones who still want to transfer out and need that "appropriate independent advice"?

It's been talked about for what seems like ever but **auto-transfers** or 'pot follows member' is nearly upon us. The DWP's *Automatic transfers – a framework for consolidating pension savings* contains the skinny. It's being phased in from Autumn 2016 and will only apply to contracts set up from July 2012 where the pot is both less than £10,000 and invested in a charge-capped default fund.

3 Probably.
4 Not really.

Being realistic, it'll be the next generation of lang cats writing about whether it's made a real difference to serial job hoppers. What we get to focus on now is the pain (probably) of getting the system on its feet without too many casualties.

We like that any cost of inefficiencies will be carried by those schemes rather than being passed on across the board. We're less convinced on how the whole thing will hang together. The DWP has opted for a network of registers instead of a single entity. Apparently this reduces the risk of the whole operation being taken out in an alien attack.

There's a lot about "register-to-register interaction", "standardised data" and "straight through processing" and we'd love to be as confident as the TPR sounds but we've been around the block a few times now and anything that involves pensions and various start and end points for data rarely goes hitch free.

Favourite line of the whole paper? "Automatically transferring pension pots will increase the number of pension transfers taking place." Now THAT'S insight.

ANNUITIES AND AT RETIREMENT

The sheer volume of investigations and reviews into the retirement income market merely reinforces the regulator's lack of success in this area.

Let's start in January 2013, when the FSA (in its dying days) launched a thematic review asking if people were getting a "fair deal" when buying annuities and looking at the extent to which people were losing out by failing to shop around. It found that…yes, of course most annuitants could have secured a better deal if they'd shopped around. It also (sort of) put the industry in its place by gently pointing out that the ABI's Code of Conduct wasn't really working that well. No one suffered from shock in the act of reading this particular report.

This was followed by a retirement income market study into whether competition was working well for consumers and how it could be improved followed. Someone, somewhere apparently needed further confirmation that "the retirement income market is not working well for consumers", and they duly got it.

Suspicions grew that a senior figure at the watchdog was running a book on how many different reports could offer *precisely* the same statement. We're being slightly unfair here. The market study did move things on a bit, reflecting the challenges posed by the new pensions regime. The creation of a 'pensions dashboard' – an idea that's been bouncing about for a while – was among the longer term remedies. That gives us an indication of where the regulator's retirement income market work – including a wider review of its rules in the pension and retirement area in summer 2015 – is heading.

But you can see where all this is going, clever you. Fast forward to 2025, when the UK regulator launches a review into why people are running out of cash in retirement and whether annuities really weren't so bad after all. It's the pensions industry's neverending story.

SIMPLIFIED ADVICE

There was a school of thought, post RDR, that the regulator had missed a golden opportunity to get a simplified advice model on its feet. *GC14/3: Retail investment advice – clarifying the boundaries and exploring the barriers to market development* picked up the baton on the approach to pension freedom. It was a game attempt to "clarify the requirements for providing the various types of service", accepting that "a lack of clarity may be inhibiting the development of different investment sales models" with finalised guidance, FG15/1 issued in January 2015.

The response was mixed. Advisers noted a lack of clarification on where the line between guidance or information and advice actually sits, as well as what precisely constitutes a 'personal recommendation'. The FCA maintains that it's all about circumstances: "For example, if information is provided on a selected rather than balanced basis so that it influences or persuades, this may be regulated advice".

As with the second line of defence directive, the FCA was resistant to the prescriptive measures that some – but not all – of the industry was calling for. While the FCA acknowledged that an "expectations gap" between it and advisers was keeping propositions back that could potentially benefit consumers, clarity was not forthcoming in FG15/1.

Nor was further enlightenment on another major stumbling block: namely the FOS's approach to simplified advice cases. The FCA's approach here remains the same – it depends on the circumstances. So advisers might still be liable to a claim by an investor who has used their simplified advice process and emerged with a recommendation only to then buy it on an execution-only basis. "This is a complex issue and the question of liability will be dependent on the facts in a given scenario", according to the guidance.

Looking forward, we can expect the pattern of more cycles of consultation and regulation to continue until it does find a way of clarifying its expectations.

HOW ONE PROVIDER IS TACKLING CLIENT COMMUNICATION: BEHIND THE CLOAK AT SCOTTISH WIDOWS

No, not behind the cloak in that sense. Naughty.

Of all the things causing providers anguish over the last 12 months, client communication over pension freedoms and in particular the second line of defence requirements are pretty high up the list. It's been more of an acute pain than a chronic one as the requirements were only finalised at the end of February, leaving a princely five weeks to finalise wording across literature, websites and call scripts.

But we had heard rumours of serious work being done behind the scenes. Work which, whisper it, might actually meet or exceed FCA requirements and not make consumers want to retreat to a corner with a bottle, the phone number of a therapist and a resigned acceptance that they will never, ever access their pension fund. Ever. It's just simpler that way, OK? It's fine. Really, I'm fine. Fine. You keep it.

Frankly, we didn't believe a word of it. So we got on the cat-phone and made a few calls to see if any providers would let us come and poke around. A couple told us to sling our hooks. A couple hummed and hawed. But a gargantuan thanks attack goes to Scottish Widows for unhesitatingly fronting up and letting us take a peek behind its cloaky curtain.

> Just to be clear, the lang cat has no business relationship with Scottish Widows. It's not a client and got absolutely nothing in return for helping us out other than the warm glow of having done something nice.

THE CLOAKED ONE FIGHTS BACK

Scottish Widows has taken something of a kicking in the trade press of late. Advisers have been pretty harsh in their views on the company's service. But, in the background, a complete re-invention of retirement wake up packs, customer facing website and call handling has been bubbling away.

Wids let us have a play around all parts of it, and to our mind, given what had gone before, that felt like a good approach: to demolish and rebuild. Wids was no worse than most in what it used to do and it was better than some. But the team acknowledged that what was there simply wasn't fit for purpose, and started again. Let's look at a few of the big ticket items they've worked on.

CUSTOMER FACING MATERIAL

Wake up packs – as this is most likely the customer's first contact on the subject there's a lot resting on its papery shoulders. Issued at 12 months, 6 months and 6 weeks, these are now short and sweet. There's no 37 page statement in that funny mainframe font, no default roll-over annuity option, in fact not a tick box to be seen. Just a value and some pointers and leaflets (including Pension Wise) about what you need to consider and the next steps. We were impressed with this.

Scottish Widows Retirement Explained website – the customer facing website takes a step-by-step approach going from the basics (surprising numbers of people are clueless about State Pension entitlement) to options, things to consider (including second line of defence) and how to action the decision. There are also some calculators to help work out exactly how quickly you can run out of money and just how big a slice is going to HMRC. That's important – one of the findings from the first week (we visited on Wednesday 15 April) was that few, if any, customers understand that they're going to be paying tax if they cash in their entire fund.

Both the online and offline collateral (marketing language for 'stuff') was written by creative professionals, not pensions dweebs. The dweebs got to be involved, but not very much. As a result, the language and register of the new SW material is markedly different.

UFPLS didn't make it past the guys with the directional hairdos and tattoo sleeves. It's been renamed PPE (Partial Pension Encashment), which isn't as good as our GYMBOA (Get Your Money Back Out Again) but is alright, if you like that sort of thing.

Call handling – this splits into inbound and outbound. Inbound is for starting the ball rolling and simpler requests such as cashing in the whole fund. Outbound is for more complicated stuff like drawdown, plans which need an internal transfer and so on.

We were really interested in the call centre work. Many advisers are pretty mistrustful of what's going on inside providers, and we can understand that. What we found in our work at SW was an obsession with referring clients back to their advisers, to Pension Wise, and to other providers if necessary.

THE SCALE OF THE CHALLENGE

- 537,000 Scottish Widows clients age 55+, have access to new freedom.
- 7,500 customers deferred taking benefits over the last year, waiting for the new rules.
- 404 new staff are being taken on (mix of temp and permanent).
- Over 15,000 calls were taken in the first week of pension freedom.
- Up to 5,000 calls are answered each day.

The call centre environment is so heavily constrained that it is completely unrecognisable next to even a rookie advice conversation. We think advisers have little to worry about here. We are also pretty sure that it's the same with other mainstream providers – they've all looked at the advice perimeter guidance from the FCA and are working very hard at staying away from anything that sounds even remotely like advice. Once you accept that not every client can use a financial planner to access £5k of their pension to get the roof done, it starts to click into place.

Anyway, back to Widows.

Rather than follow a script, call handlers attempt to guide the caller down a relevant path with 'requirements' of what must be covered and 'word patterns' of how to do so set out for each section. The conversation is driven by the customer's answers to the questions, with something like 500 possible routes through what ends up looking like a highly, highly complex decision tree.

SW's bods lay out relevant options (and sometimes, in a desire to be completist, less relevant ones) but its plans to establish which option 'might be better for you' were kiboshed by FG15/1. As it is, the call structure covers a mighty 27 steps (15 more than recovering alcoholics) with outbound calls intended to last between 30-45 minutes. They can take a lot longer, unsurprisingly. The required warnings and questions take up a lot of time (more than half the call) but requirements are requirements. We suspect it'll settle down slightly as everyone gets used to the process.

THE LANG CAT VERDICT

One thing that really stood out for us, particularly with the literature and the website, was that it was actually pretty good. The gimlet eye of the lang cat doesn't miss much and, on the odd occasion we find ourselves being nice about a provider it just feels wrong. Slightly dirty somehow. But, credit where it's due and the Morrison Street hipsters (bushy beards optional) have invested some serious time, effort and (no doubt) money. And we think it's been worth it. It's not perfect, some of the prompted call responses are laboured and repetitive and could stand being more intuitive or helpful to the client, but it's early days and the whole proposition is evolving in response to feedback and experience. The one aspect which has probably had the greatest positive impact overall is to largely hand over the writing and vocabulary work to externals who have a vague understanding of how to speak to people without driving them to violence.

Sitting behind all this stuff is product architecture. Wids has a huge back book, and is the pension brand for all of Lloyds TSB, so it covers Halifax and Clerical Medical products as well. All the old products can be cashed in without needing to transfer. Most can offer ~~UFPLS~~ PPE. The soft underbelly is that partial encashment from most older plans (ah, NUPC2, how we miss you) has to be done via ~~UFPLS~~ PPE; flexi-access isn't available without a transfer to the Retirement Account product (SW's new generation pension) and that's a lot more complex. As a result, people wanting partial encashment are told that their cash will be 25/75 tax free/taxed at this point, and that their maximum annual allowance will drop to £10,000 across all their plans, and that they need to tell any other providers into whom they're saving that this applies within 91 days.

Should a provider – whether it's Scottish Widows or not – be stopping to say, 'hang on, wouldn't it be better if people took a partial encashment 100% from tax-free cash where possible?' That would leave more in the fund to grow, assuming the client knows how much they need out as a net figure.

In an ideal world, older products would offer everything. But they don't, and here's where the unstoppable force of consumer demand meets the immovable object of legacy systems. Do you stop people getting what they want, force them down an advice route or a lengthy insistent client internal transfer process, in order to (in theory, and without knowledge of their tax affairs) optimise the tax position of the encashment? Or do you say 'this is what we can do for you via phone/internet, this is what we can't do, do you want to go ahead with the bit we can?'

Not easy. The right answer is, of course, 'get advice'. But SW, like most insurers, has hundreds of thousands of small pot pensions, largely from GPPs, where there is no advice relationship, even if there's an agency on the plan. It needs to find a line of best fit. Whether it's done it or not – time will tell.

THE HIGHLIGHTS

Starting from scratch and handing the writing and vocab over to externals who know about such things has benefitted the collateral, call process and (hopefully) customer experience.

There is a real lack of awareness and understanding among consumers of the tax implications of pension encashment. Tools and call routes have been designed to address this gap.

Conversations are weighed down by regulatory requirements, making them less intuitive to customers than they might be. But this initial caution will probably settle over time.

SW clearly takes great care to avoid any suggestion of anything even vaguely resembling advice. Pension Wise, advice and shopping around are repeatedly flagged even where client responses appear to rule them out of contention.

All old products from across the business can be cashed in. But partial cash from most of these has to be via PPE (or UFPLS in industry-speak). Flexi-access means an internal transfer to the new-generation Retirement Account which is a much more complex process.

WHEN THE LEVEE BREAKS: WHAT NEXT FOR THE UK RETIREMENT SAVINGS MARKET? the lang cat

WOUNDED BULL: THE PRICING BIT

Looking at pricing across the retirement savings market was always going to be tricky, even focusing on the point at which investors can access their accumulated bunce. Working through direct and advised platforms, life companies and SIPP specialists we compiled a list of names which would have created a set of #heatmaps big enough to merit a Guide all of their own.

As fun as that sounded, we ain't got that kind of time. So just this once, rather than showing lots of portfolio sizes, we decided to take a selection from each channel, summarise the pertinent charges and see how that might all work out for a made-up scenario. We did one for each main business area – direct platforms, advised platforms, SIPP specialists and lifecos. This also works better because – unlike the platform world – the SIPP world is much more about fixed charges, and all the big tables would prove is that a fixed charge represents a smaller percentage of a big investment than a small investment. And while we're happy to tout basic arithmetic around, even we aren't that basic.

TRUE COLOURS

One thing you'll notice about lang cat heatmappery, if you're not already familiar with it, is all the lovely colouring. This is what it's about: we set tolerances for what looks green, amber and red. It's all based on sums and how one overall charge compares to another in that particular scenario. So, green for the cheapest, red for the most expensive and various hues and shades for everything in between. It absolutely does not mean that green is good and red is the embodiment of everything that is wrong with the world. So, just to be clear, no good/bad, no FCA endorsement/fine or anything like that. It's just an easier way of looking at a big list of numbers.

ASSUMPTIONS

We've used what we believe to be a representative range of providers for each channel. We'd love to have an exhaustive list of every provider in the UK but (1) we are limited by the availability of charging details, (2) some providers have confirmed that they do not currently offer the new flexible options and so are excluded and (3) we quite like a couple of hours off every other weekend.

We work with what advisers (and consumers going direct) have access to, keeping our experience as close to theirs as possible. So where data is not readily available, we don't include it. We did hit the cat-phone to fill in the odd blank but that's nothing an adviser or consumer wouldn't do.

Core charges for advised and direct platforms are based on the patented lang cat Recursive Pricing Engine (now with 11.8% less guessing) and the usual assumptions apply. In short, that means only core custody and wrapper charges make it in. We haven't included any trading charges this time. We include drawdown or UFPLS costs as appropriate.

For the SIPP specialists the core charge is (where applicable) the basic charge, which assumes the client is using standard or core investments as determined by each provider.

SIPP core charges tend to be fixed rather than a percentage of funds, which benefits larger pots.

A wealth (pun) of event driven charges can apply to SIPPs such as set-up, in-specie transfer, moving into different assets, commercial property and so forth. We have excluded all of these. If enough people ask we might do some new tables with them in for certain scenarios. Or we might not. We're fickle that way.

The figures shown in the pricing tables are all exclusive of VAT unless stated. The heatmaps are based on total charges in each case and so include VAT where it is applied.

RULES OF ENGAGEMENT

1. Our tables are based on published charging data from provider T&Cs and are correct to the best of our knowledge. We don't send these on to the platforms or providers for verification as we prefer to rely on the information available to anyone else. However, where data was not publicly available we did ask and our thanks go to those who were kind enough to help.

2. Our assumptions and any decisions we made along the way are noted above.

3. Platforms/providers – if you think we have done you an injustice then please get in touch and we'll talk. We'll happily correct any mistakes, but be sure of your ground before you have a pop…

4. Advisers – this is an egg-sucking masterclass but we feel better if we say it. You know you have a duty to assess suitability on a much more detailed basis than a quick glance at a table and a sample scenario. We hope our data helps but it's no short cut to proper due diligence.

One last thought before we kick off with the good stuff. We mentioned that we aim to keep our process in putting the #heatmaps together as close to that of an adviser or consumer as possible. There is often some pain involved but this time we were frankly stunned at how hard it was to track down some of the pricing details.

Some were easy; simple to find, well-structured and clearly written. Others were impossible, with a number of providers appearing to still not have flexi-access pricing published more than two weeks after the new regime went live. This is just not good enough.

Fair enough if you are clear that you're not offering the facility, less so otherwise. We'll come back to this later in this section.

DIRECT PLATFORMS

Henry likes playing the markets and he's done quite well over the years, building up a pot of around £50k. The time has come for Henry to enjoy the fruits of his retirement labours and he's decided that drawdown is the best option for him. Specifically, he wants to take his maximum tax-free sum of around £12,500 and go on a round-the-world trip to see the places he's been investing in all these years. Thereafter he wants to draw a small top-up income, and vary this over time. He's all over the new regulations, understands tax implications and so has decided to go direct.

First let's look at the direct platforms' overall charging structures and then move onto Henry's own situation.

Direct Platform	Flexi-access Drawdown (FAD) Setup	Annual FAD	FAD One-off Payment	UFPLS Payment	Annuity Purchase	Stripping Out Within One Year
AJ Bell Youinvest	£0	£100 if regular income taken, £50 if not	£75	£75	£150	£295
Alliance Trust Savings i.nvest	£0	£75	£0	£40	£150	Not stated
Barclays Stockbrokers	£75	£100	£0	£75	£75	£250
Bestinvest	£0 (although there is an initial calculation fee of £90 for > £100k and £100 for < £100k)	If income is taken £0 for > £100k, £100 for < £100k.	£0	Not stated	£75 internal, £100 external	£290
Charles Stanley Direct	£150	£0	£150	Not stated	Not stated	£200
Chelsea Financial Services	£100	£120	Not stated	Not stated	Not stated	£300
Fidelity Personal Investing	£0	£0	£0	£0	£0	Not stated
Halifax Share Dealing	£0 (£90 no VAT if switching from capped to flexi)	£180 (no VAT)	£90 + £25 per investment (max £215) to designate additional funds (no VAT)	£90 (no VAT)	Not stated	£300 (no VAT)
Hargreaves Lansdown	£0	£0	£0	£0	£0 internal, £150 external	£295
Interactive Investor	£0	£170	Not stated	Not stated	Not stated	Not stated
iWeb	£0 (£90 no VAT if switching from capped to flexi)	£180 (no VAT)	£90 + £25 per investment (max £215) to designate additional funds (no VAT)	£90 (no VAT)	Not stated	£300 (no VAT)
James Hay Modular iPlan	£100 (no VAT)	£150 (no VAT)	£0	£100 (no VAT)	£0	Not stated
Telegraph Investor	£0	£170	Not stated	Not stated	Not stated	Not stated
TD Direct	£0	£75	£0	Not stated	£75	£250
Trustnet Direct Investing	£204 (no VAT)	£180 (no VAT)	Not stated	Not stated	Not stated	£302

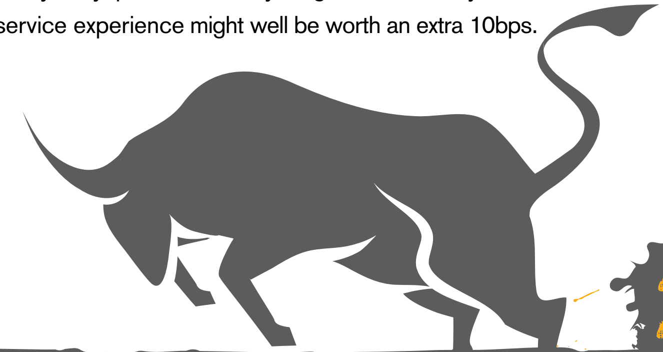
All charges have VAT on top unless stated

Direct Platform	Core Charge	Drawdown Charges	Total % Charge
AJ Bell Youinvest	£200	£120	0.64%
Alliance Trust Savings i.nvest	£186	£90	0.55%
Barclays Stockbrokers	£175	£210	0.77%
Bestinvest	£150	£240	0.78%
Charles Stanley Direct	£245	£180	0.85%
Chelsea Financial Services	£300	£264	1.13%
Fidelity Personal Investing	£175	£0	0.35%
Halifax Share Dealing	£90	£180	0.54%
Hargreaves Lansdown	£225	£0	0.45%
Interactive Investor	£176	£204	0.76%
iWeb	£90	£180	0.54%
James Hay Modular iPlan	£285	£250	1.07%
Telegraph Investor	£246	£204	0.90%
TD Direct	£390	£90	0.96%
Trustnet Direct	£221	£384	1.21%

Core charges are based on £50k fed through the lang cat direct engine
Charges are inclusive of VAT where applicable

There's an element of irony in the most complex charging structures being aimed at direct investors, but here we are. In this case, there are a number of event driven charges for Henry to take into account: flexi-access set up charges (which can vary depending on whether it's an internal or external transfer), annual charges (which can vary depending on whether regular income is taken) and one-off payment charges (which can vary depending on the colour of your socks). And don't forget the underlying core charges. And, just when we thought we were done, Henry should be aware that, in the unlikely event that he got a bit carried away and cleared out his fund inside of a year, some platforms will charge – and heavily too.

So, how do our direct platforms look? As you'd expect, there are stand outs at either end of the scale. Neither Fidelity Personal Investing nor Hargreaves Lansdown (HL) apply set up, annual or one-off income charges, which leaves them sitting alongside Alliance Trust Savings i.nvest (ATS) and Halifax Share Dealing and looking a pleasing shade of green, despite HL's chunky core charges. On the other hand, an eye-watering combination of core and event driven charges leaves James Hay Modular iPlan, Trustnet Direct and Chelsea Financial Services firmly in the red zone. Fidelity comes up trumps on a purely cost basis but, as we always say, price isn't everything and, for Henry, the HL service experience might well be worth an extra 10bps.



WHEN THE LEVEE BREAKS: WHAT NEXT FOR THE UK RETIREMENT SAVINGS MARKET? the lang cat

ADVISED PLATFORMS

Julia received a divorce settlement some years back (every penny earned, thank you) which her adviser recommended would be best in an on-platform SIPP and is now worth £100k. She also has pension rights from the divorce for income, so she really just needs to be able to call on her fund for ad-hoc lump sums as and when needed. She's agreed with her adviser to stick with a platform.

Julia discussed the relative benefits of FAD and UFPLS with her adviser at length. On balance, the fact that FAD gives Julia a little more control narrowly swung the decision in its favour, although it was a close-run thing. FAD also ends up looking a little less expensive on many advised platforms than UFPLS – not to mention the fact that some platforms don't offer UFPLS at all.

Advised Platform	FAD Setup	Annual FAD	FAD One-off Payment	UFPLS Payment	Annuity Purchase	Stripping Out Within One Year
Aegon Retirement Choices (ARC)	£0	£75 (no VAT)	£0	£0	£0	Not stated
AJ Bell	£0	£150	£75	£75	£0	£250
Alliance Trust Savings	£0	£75	£0	£40	£0	Not stated
Ascentric	£0	£150	£0	£0	£75	£100
Aviva	£0	£0	£0	UFPLS not offered	£0	Not stated
AXA Elevate	£0	£0	£0	£0	£0	Not stated
Cofunds	£100	£120	£0	£220	£0	£300
FundsNetwork	£0	£0	£0	£0	£0	Not stated
James Hay Modular iPlan	£100	£150 (no VAT)	£0	£100 (no VAT)	£0	£150 (no VAT)
Novia	£0	£62.50	£0	£62.50	£0	Not stated
Nucleus	£0	£0	£0	UFPLS not offered	£0	Not stated
Old Mutual Wealth	£0	£0	£0	UFPLS not offered	£0	Not stated
Parmenion	£0	£0	£0	£0	£0	Not stated
Standard Life Wrap	£0	£0	£0	£0	£0	Not stated
Transact	£0	£0	£0	£0	£0	Not stated
Zurich ZIP	£0	£0	£0	£0	£0	Not stated

All charges have VAT on top unless stated

Advised Platform	Core Charge	Drawdown Charges	Total % Charge
Aegon Retirement Choices (ARC)	£540	£75	0.62%
AJ Bell	£416	£270	0.69%
Alliance Trust Savings	£186	£90	0.28%
Ascentric	£370	£180	0.55%
Aviva	£365	£0	0.37%
AXA Elevate	£320	£0	0.32%
Cofunds	£290	£264	0.55%
FundsNetwork	£295	£0	0.30%
James Hay Modular iPlan	£375	£250	0.63%
Novia	£500	£75	0.58%
Nucleus	£350	£0	0.35%
Old Mutual Wealth	£387	£0	0.39%
Parmenion	£300	£0	0.30%
Standard Life Wrap	£550	£0	0.55%
Transact	£510	£0	0.51%
Zurich ZIP	£425	£0	0.43%

Core charges are based on £100k fed through the lang cat advised engine
Charges are inclusive of VAT where applicable

Set up charges are rare for flexi-access drawdown on advised platforms with only Cofunds and James Hay levying a fee (£100 each but Cofunds has VAT on top). Even rarer are charges for subsequent withdrawals and AJ Bell looks a little exposed with its £75 (plus VAT) fee. So, other than core charges, the real influence on the overall charge outcome for Julia is the annual FAD charge. Again, not everyone applies these (only about half of the platforms we looked at) but those who do range from £62.50 plus VAT (Cofunds) to £150 (AJ Bell, Ascentric – both plus VAT – and James Hay Modular iPlan – no VAT).

Not surprising, AJ Bell is at the red end of the scale, closely followed by James Hay, although a hefty core charge sees Aegon Retirement Choices keeping them company. Core charges also drive the green scene with Alliance Trust Savings' annual charge balanced out by the impact of its fixed fee structure. Conversely, while both FundsNetwork and Parmenion have a mid-field core charge, their position on the table benefits from an absence of event driven charges.

SIPP SPECIALISTS

An early adopter of SIPPs (back in the day) Sophie has built up £250K and she intends to enjoy it. While this is a chunky fund, her main source of income will be her employer DB scheme so she's set this aside to dip into as needed and has decided to go the UFPLS route, with four separate withdrawals in the first year. The first 25% of each UFPLS will be tax free and the remainder taxed at her marginal rate. Sophie might have to withdraw the whole fund at some point over the next year as both her children are looking for properties and she's promised them each a lump sum in lieu of inheritance – why pay the extra tax, right?

Provider	Product	FAD Setup/ First Payment	Annual FAD	FAD One-off Payment	UFPLS Payment	Annuity Purchase	Stripping Out Within One Year
Barnett Waddingham	Flexible SIPP	£250	£117	£117	£200	£210	Not stated
Curtis Banks	The Curtis Banks SIPP	£0	£0	£120 for each payment after the first	£120 for each payment after the first	£75	£250
Dentons Pension Management	Dentons SIPP	£250	£120	£250	£250	Not stated	Not stated
Hornbuckle	Full SIPP	£175 (annual) + £50 if income taken	£175	£50 (if income)	£50 per instruction plus £175 pa	£200	Not stated
InvestAcc	The Minerva SIPP	£100	£100	£100	£100	£100	Not stated
IPM	The IPM SIPP	£150	£150	£150	£150	Not stated	Not stated
London & Colonial	Simple Investment SIPP	£120	£120	£0	£120	£75	Not stated
Rowanmoor Pensions	Rowanmoor Pensions SIPP	£125	£125	£250	£350	Not stated	Not stated
Sippchoice	Sippchoice Bespoke SIPP	£150	£175	£150	£150	£150	Not stated
Suffolk Life	MasterSIPP	£155	£155	£155	£155	£100	£300
Talbot & Muir	Elite Retirement Account	£125	£150	£75	£200	£150	£125
Westerby Trustee Services	Full SIPP	£175	£125	£175	£300	£225	£275

All charges have VAT on top unless stated

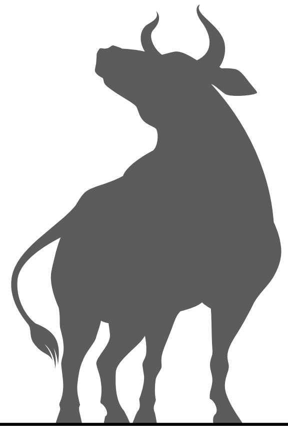
Now, we accept that Sophie's scenario is unusual – most advisers might caution against taking so many UFPLS purely because she'd get hammered on charges. But it's an option and it lets us see just how it all stacks up.

Unlike most platforms, SIPP specialists' core charges are fixed rather than ad valorem. Like platforms, a range of event driven charges can apply, but for Sophie we're just looking at core SIPP and UFPLS charges.

Both of these vary considerably as we look across the table. Unlike advised platforms, everyone here charges for UFPLS – although Curtis Banks helps its position on the heatmap by letting you have one for free. Charges vary considerably from £50 (Hornbuckle Full SIPP but with an additional annual admin charge of £175) to £350 (Rowanmoor Pensions SIPP) with an average of around £180, all of which have VAT on top.

And it's chunky UFPLS fees which pave the road to the red end of our heatmap, with Westerby Trustee Services Full SIPP claiming the top spot and Rowanmoor only nudged into second place by virtue of sporting one of the lower core fees. Taking everything into account, either will relieve Sophie of around £2k in the space of one year, just in charges. Just to GYMBOA[5]. That's two Mulberry bags. Conversely, the two least expensive options overall (Curtis Banks and London & Colonial) are those with the lowest core charges, although a bit of restraint with UFPLS fees plays its part.

5 Get Your Money Back Out Again. Do keep up 007.



Sophie's options aren't really limited by the possibility of needing to clear out her pot over the next year as only four of our SIPPs specify charges for doing so. Of those who do, charges are no worse than some UFPLS fees. Curiously, both the cheapest option overall (The Curtis Banks SIPP) and the most expensive (Westerby) levy charges.

Provider	Core Charge	Total UFPLS Charge	Total % Charge
Barnett Waddingham	£300	£960	0.50%
Curtis Banks	£294	£432	0.29%
Dentons Pension Management	£654	£1,200	0.74%
Hornbuckle	£630	£450	0.43%
InvestAcc	£480	£480	0.38%
IPM	£648	£720	0.55%
London & Colonial	£239	£576	0.33%
Rowanmoor Pensions	£300	£1,680	0.79%
Sippchoice	£402	£720	0.45%
Suffolk Life	£654	£744	0.56%
Talbot & Muir	£504	£960	0.59%
Westerby Trustee Services	£660	£1,440	0.84%

Charges include VAT where applicable

WHEN THE LEVEE BREAKS: WHAT NEXT FOR THE UK RETIREMENT SAVINGS MARKET? the lang cat

LIFE COMPANIES

Right, here we go. Deep breath. Calm blue ocean.

So, we said that we were going to create a sample persona for each channel, but the eagle eyed among you will no doubt notice that this section is distinctly sans-heatmap. Not a green, amber or red hue in sight.

The truth is that wading through lifeco rhetoric and trying to achieve a level playing field for calculations drove us as close to an existential crisis as we like to get here in Leith. That's not to say lifeco charging structures are especially complex. It's just that unpicking the opacity of them to make a fair like-for-like comparison felt contrived to the point that it didn't pass our sniff test.

The main problem lies in a good chunk of providers still bundling together product and fund costs, often with a series of discounts and bonuses thrown in. We're not comfortable positioning a product with the cost of underlying investment thrown in alongside another that unbundles. Less 'How do you like them apples?' and more 'Let's compare that apple to that other apple. Oh hang on, that's a 1957 Studebaker Golden Hawk'. So we didn't.

What you see here, then, is a table outlining the main providers in the lifeco (mostly insured) drawdown market and our interpretation of each provider's core product and additional (if any) drawdown charges. We think a summary like this is still useful.

Provider	Product	Core Charges – what they say	FAD Charges – what they say
Aegon	One Retirement	Unbundled. 0.3% on the first £250K then 0% on the rest.	£75 per annum
AXA Wealth	Retirement Wealth Account	Net bundled insured AMC ranges from 0.8% – 1.9% depending on funds used. There are 'discounts' ranging from 0.50% to 0.65% depending on portfolio size.	£150 for a one-off withdrawal. £150 per annum for part withdrawal or drip-feed drawdown.
Friends Life	Friends Life Flexible Pension Account	Unbundled. AMC ranges from 0.15% to 0.45% depending on portfolio size.	£20 per payment, although the first four payments in a year are free
Legal & General	Portfolio Plus Pension Income Withdrawal	Unbundled. The AMC ranges from 0.1% to 0.5% depending on portfolio size.	£0
LV=	Flexible Transition Account	Unbundled. AMC ranges from 0.10% – 0.25% if using insured funds. If using wider investments, it ranges from 0.10% to 0.55% – all depending on portfolio size.	Initial fee of £295 for funds < £50K, £175 > £50K
Old Mutual Wealth	Personal Pension Income Plan	Unbundled. 0.25% regardless of portfolio size.	£150 per annum
Prudential	Pru Flexible Retirement Plan	The AMC is bundled and ranges from 1.45% to 2.35% depending on funds used. There are 'discounts' ranging from 0.10% to 0.30%, depending on portfolio size.	Not stated
Royal London	Pension Portfolio Income Release	Bundled. The AMC is 0.90%, this is reduced by 'discounts' from 0.40% to 0.55% depending on the portfolio size.	One-off charge of £184
Scottish Widows	Retirement Account	Unbundled. The service charge ranges from 0.10% to 0.70% depending on portfolio size.	No fixed costs (the core charges for those in drawdown are slightly higher than accumulation accounts)
Standard Life	Active Money SIPP	The AMC is bundled and ranges from 1% – 2% depending on funds used, plus a yearly admin charge of £303. There are 'discounts' ranging from 0.3% to 0.5% depending on portfolio size.	No charge if in level 1 and 2 assets. Initial / ongoing fees of £189 / £146 for level 3 assets.

For the sake of balance, some lifecos are very busy making fundamental changes to their model. But this is a pricing analysis and so we're sending them to the naughty step to have a good think about what they've done. Or not done, as the case may be.

Aviva and Zurich are conspicuous by their absence from the table. While they still have older, insured options available, both now only actively market new style platform pensions so they just feature in the advised platform table.

Platforms have come a long way in recent years, unbundling fund, product and platform costs to a point that makes it far easier for advisers and customers to see and understand charges. A regulatory read-across to lifeco products is on our wish list.

ANNUITY FOR SALE ONE PREVIOUS OWNER LOW MILEAGE

Here's where it all gets difficult.

The Treasury, like a toddler realising he shouldn't have picked permanent marker for drawing on the wallpaper, knows in its heart that extending pension 'freedom' to those who have already bought their annuities is taking things a bit far. Even if it won't admit as much.

It's all there in black and white, in the prose of the consultation on proposals. This contains whole paragraphs that make you wonder why they're bothering with it at all. If, like us, you're suspicious that this wouldn't even be mooted in a non-election year then You Are Forgiven.

WHAT'S IT ALL ABOUT THEN?

Very briefly, the idea is to let people sell their annuities to a third party and use the cash proceeds – which would be taxed at their marginal rate – any way they like, perhaps to buy a more flexible annuity, a flexi-access drawdown plan or a debauched weekend in Amsterdam.

The most likely buyers would be life offices and pension funds, though providers wouldn't be able to buy back annuities they had sold.

Steve Webb started talking about second hand annuities last year, keen to ensure that existing annuity holders could take advantage of new pension flexibility and, if they're lucky, get to experience the thrill of being ripped-off all over again. We'll come back to that.

The consultation on the proposal was launched in the 2015 Budget, though consultation is possibly not the best word for it. We'd favour 'Invitation to tell us why this is a crazy idea'.

Anyway, anyone planning on responding to the consultation and struggling to spell out their concerns will find plenty in the document to help them.

- Not sure whether it's a good idea for existing annuity holders? Nor is the Treasury: "The government believes that for most people, keeping their annuity income will be the right decision – allowing them a stable and guaranteed retirement income."
- Not sure if it's a good idea for people who might want to buy an annuity on the secondary market? The Treasury is right there with you: "The government does not consider annuity income purchased on the secondary market to be an appropriate investment for retail investors owing to the complexity and difficulty in determining a fair price..."

So let's recap. Selling an annuity probably isn't a good idea, and buying one definitely isn't.

IF LEMMINGS WROTE CONSULTATION PAPERS

Anyone would think the government actually wants the consultation to kill the plan stone dead. Still, it wouldn't have got this far if there weren't clear benefits (for someone outside Westminster). Take existing annuity holders for example. We can think of…er, no real...oh, hang on, maybe a choice thingy…no. No, it's gone. No benefits at all.

A few drawbacks spring to mind however, and without very much chin-stroking. The most obvious, perhaps, is the loss of value to the existing annuity holder. They lost plenty of value in buying it in the first place, in the form of direct and hidden charges. Now they're re-entering a market well versed in the ways of fleecing them, with yet more charges and extra costs (such as for underwriting) adding to the amount sliced off the value of the contract.

An annuity bought and then sold on the secondary market a week later would lose about a fifth of its value, reckons KPMG, though we reckon it's closer to double that.

And it's this that's behind our 'rip-off' comment above. Ned Cazalet, author of the authoritative[6] *When I'm Sixty-Four* report into annuities, reckons that annuitants lose about 20% of the monetary value of their fund by annuitising. Unless the industry fancies applying for charitable status, we'd bet a decent whack of the lang cat Strategic Gaming Reserves that you'd be caught for about the same again on the way out, along with a tax charge (no phasing available in flexi-access/UFPLS style here).

6 Long.

If someone does get a good deal it probably means they shouldn't sell it because the income was locked in at a time when gilt yields were pretty attractive. But they'll get advice first, won't they? Will they? There's a decent chance that even if they were in an advice relationship, the annuity purchase might have been the cut-off point. Few people will pay for advice purely on selling their annuity, even if that avenue remains open to them. If they do – and they may have no option depending on the final rules – that's yet another cost to factor in.

From what we can see, the only way this market works to a consumer's benefit is if she is able to exploit information asymmetry – mainly knowing that she is going to die soon and convincing the company purchasing the annuity that she isn't. That doesn't sound like a great idea to us.

There's a whole bunch of other things to think about too:

- Would someone selling a joint life annuity (assuming he needs/has the permission of his spouse) be selling the spouse's benefit too, for example?
- Would sellers need to meet minimum income requirements?
- If new underwriting is needed would they need to pay for this even if they decide not to sell?
- What happens to purchase prices in light of the EU Gender Directive, especially for the fellas?
- Is there a cooling off period?
- How do you ensure that an older person isn't being coerced?

And so on.

Those sellers that do benefit – such as those needing to switch from, say, a single to a joint life policy – will be in a small minority, as even the Treasury admits. The Institute for Fiscal Studies agrees, suggesting a second-hand annuities market is unlikely to emerge due to "the significant problems of 'adverse selection'".

AND THE GOOD NEWS?

Ok, what about providers? If it's bad for consumers then there must be some benefits for the industry – isn't that how it works? Such cynicism! Annuity providers might, if the market becomes viable, benefit from an increase in demand as people realise buying an annuity doesn't necessarily lock them in. They could view second-hand annuities as potentially providing a handy stream of revenue that helps cover the pensions they're still paying out. But to really make it work they'll need to buy in bulk, and they'll need to work out a way of buying and pricing that keeps the regulator off their backs.

Pension funds and investors may also see decent returns in aggregated annuities packaged up and sold as funds offering a longevity hedge. Anyone who remembers the fate of traded life policy investments – better known as 'death bonds' – will see where this could end. Those products ended up being banned, on the basis that they were 'toxic'. A ringing endorsement if ever there was one. It's rare that a piece of legislation offers no clear wins for anyone. But this comes darn close, which is why it's destined only for the long grass. Well, until the next election anyway.

Those who fail to learn from history are doomed to, blah blah, all that sort of thing. In the end, we're looking at a market where people with relatively low value assets go through a highly frictional and likely expensive sales process, which will need multiple checks and balances. And probably advice. Which most won't want to pay for and many won't be able to pay for, even if they can find advisers who want to advise on it, which they won't. So unless we fancy going through life settlement funds or the collateralised mortgage market again, this market's a bad idea.

We think enough others are of a like mind – including a number of high profile insurers – that it will be a rich source of debate, and may even spark some new products (such as MGM Advantage's new money-back annuity product) but will never see the light of day. For after all, if someone wants to lose 40% or more of their retirement savings, there are more fun ways to do it; many of them during that weekend in Amsterdam.

But enough of what we think, Platform Man wants a word...

WHEN THE LEVEE BREAKS: WHAT NEXT FOR THE UK RETIREMENT SAVINGS MARKET? the lang cat

SCENE 94 – THE NEW ADVENTURES OF PLATFORM MAN

INT – A conference venue lobby, the kind with no natural light and with a carpet which has been designed to gouge your brain out through your eye sockets. **THE LANG CAT** sits, semi-slumped, skiving out of the 'Whither Bid-Offer Spreads?' panel debate, in a chair which is comfortable for exactly 18 minutes and then excruciatingly uncomfortable. **PLATFORM MAN** takes a seat opposite **THE LANG CAT**. Pension freedoms have put a new spring in his step, as he's been moved to the 'Decumulation Innovation Committee' or DIC, and is #delighted to be putting his product innovation skills to good use.

PLATFORM MAN: Well, hello! It's been a while, hasn't it? ExpandingIseenoaccountingfortastehahahaI'mjokingobviously have you noticed on Linkedin that I'm now heading up our Decumulation Innovation Committee with special responsibility for secondary markets?

THE LANG CAT: No, I missed that, although I did see it was your birthday on April 12, so congratulations on that.

PLATFORM MAN: Indeed, although there's no time for birthdays what with all the innovating we're doing, especially in the secondary markets, as I'm sure you can imagine! That said, in one way all the birthdays have come at once! For clients, I mean, of course!

THE LANG CAT: You're not doing the buying and reselling annuities thing, are you? I'd have thought that was too risky even for you.

PLATFORM MAN: Well, that all depends on the amount of innovation we can bring to this new and very exciting market. It's all about choice for individuals and opening up the valuable freedoms that people retiring now enjoy, and escaping poor value annuities from the past.

THE LANG CAT: Didn't you sell them those annuities in the first place?

PLATFORM MAN: No, no, our annuities have always been excellent value; as you know it's about value not price and our analysis shows we deliver 14.7% more value per annuity despite our rates being only 89% of market average on a rolling 14-month timeframe. That's obviously not for including in one of your funny funny reports.

THE LANG CAT: I wouldn't dream of it. But wouldn't you agree that – as Cazalet suggests – individuals have already taken a fair old doinking on the way into their annuity? Surely you're just going to hammer them again on the way out?

PLATFORM MAN: (pressing his point home) No, you've misunderstood the entire dynamic of this. It's all about value, you see? The second-hand annuity market will provide a welcome source of capital value to us, I mean shareholders, I mean clients.

THE LANG CAT: (pressing the point right back) See, that's the whole point! This works for you and not for clients! And then you'll just package the damn things up, resell them, collateralise them and it'll be an unholy mix of CDOs and life settlement funds! Who wants that? Only people who're worried about their profitable back books disappearing at a rate of knots!

PLATFORM MAN: Lots of people, Mr Clever-Clever Cat Man. Especially our owners. Of whom you are one. Where is your meagre, shrivelled pension pot invested again? You own us. We own you. You are us. We are you. You are ONE OF US. ONE OF US. ONE OF USSSSSSSSSS.

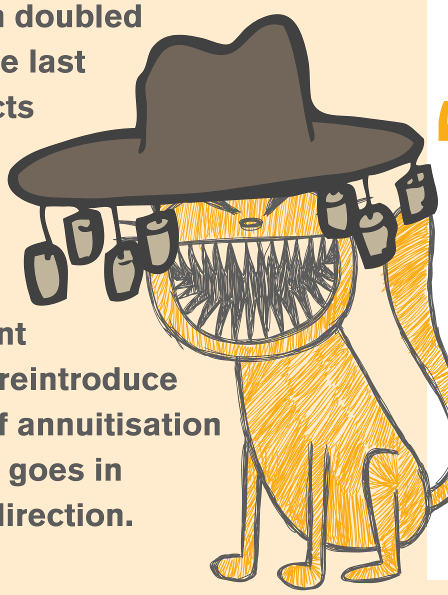
THE LANG CAT recoils in horror as **PLATFORM MAN's** features melt away, to reveal a green-skinned lizard with glowing gold eyes. A slithering sound makes **THE LANG CAT** turn round. The lobby is now full of lizards in suits. A chant of 'GOBBLE, GOBBLE, ONE OF US' starts, showing that mixed film references are fine in skits like this, something which is only exacerbated when **THE LANG CAT** runs to the door only to see a large wicker cat outside. Lizards line the way to it, swaying and chanting with flaming torches.

THE LANG CAT: No! I recant! You're right! Consumers deserve everything they get! Your share price is the most important! I long to participate in the tertiary annuity market! Aiiieeeee!

THE CAMERA PANS AWAY FROM THE DISTRESSING SCENE. The panel discussion on bid/offer spreads continues, forever.

GHOSTS OF PENSION MARKETS YET TO COME: LESSONS FROM ABROAD

The new business performance of an Australian lifeco wouldn't normally be on our radar but, amid the fevered pre-6 April industry hunkering and clenching, Australia's biggest annuity provider, Challenger, posted half-year results that were well worth a look. Record annuity sales, with retail new business up 8%, offered the latest cautionary tale on pension freedom from a country beginning to absorb lessons from its own wide-ranging reforms. CEO Brian Benari warned that industry innovation in longevity products "shouldn't come at the expense of retiree safety". Challenger, which says its average annuity sale has more than doubled in size over the last decade, expects annuity sales to continue rising in a market where the government faces calls to reintroduce some forms of annuitisation just as the UK goes in the opposite direction.



THROW ANOTHER SELF-MANAGED SUPERANNUATION PLAN ON THE BARBIE

On the face of it, the Aussie pension system appears successful. Favourable tax policies and the compulsory pension system introduced in 1992 have helped Australia build up the world's biggest pot of managed fund assets per capita. Its savings culture is one the UK can only dream of.

But it's not all positive. 'Massive numbers' of people are bailing out of their retirement accounts in their mid-60s and instead piling into self-managed superannuation funds (SMSFs – nearly wins at acronyms but narrowly misses out to UFPLSs), which are now the biggest single component of the Australian pension system. We know there are concerns that the UK might head in this direction so what's behind the move from the consumer perspective?

The language those retirees use is one of taking 'control', according to **Paul Resnik, co-founder of Australian risk tolerance experts FinaMetrica.**

"It's nonsensical. They're not in control, they're running a high risk formula they don't understand."

Almost all of SMSF money is invested in Australia, with about 70% in growth assets, creating a "huge concentration risk", says Resnik. "When I ask people why, they say it's because they want to be in control and invest in what they understand. But if you haven't done it professionally you won't have a clue how to do it properly – you can have no notion of the risk being taken."

The big SMSF inflows have come largely since the financial crisis, meaning few SMSF investors have experienced a bear market. When Australia does experience a correction those retirees will be hit and hit hard. The problem is both caused and compounded by a dislike of financial advisers, Pauline Vamos, chief executive of The Association of Superannuation Funds of Australia, has warned.

"We are seeing trends across the world, including in Australia, in terms of where advice is going and we know that over the next few years the vast majority of advice will be self-guided advice. Australia is all about do-it-yourself, they hate advisers, they hate intermediaries," she told last year's National Association of Pension Funds conference.

The Murray Review, which is investigating the country's financial system, revealed that one in four Australians run their pots down by age 70. It found that 44% of people use their pension cash to pay off housing and other debts or to buy a property, while nearly three in 10 spend it on holidays or new cars. Consequently, the report warned, there is now an issue with "seriously depleted pension funds as a result of the freedom to invest". While we can only comment on people's intentions (which aren't exactly a fool-proof indicator of actual behaviour) the UK seems to be more concerned about security and longevity of income than taking control. Perhaps lessons are already being learned. Or perhaps we're just much more pessimistic than our counter-parts down-under. Probably the lack of vitamin D.

So what can the UK learn from the Aussie experience? What does 'good' look like in the brave new pension world? Ideally it would include affordable products that help people manage longevity risk and provide some element of guarantee. Without effective longevity risk management options – identified by the Murray report as a "major weakness" of the Australian system – those warning that Brits will deplete their pensions too soon will be able to say 'we told you so'.

More than 20 years after relaxing access to pensions the retirement phase of Australia's pension system is "underdeveloped", according to David Murray, with too few products helping people mitigate longevity risk. This is a pretty damming judgement – but can we avoid falling down the same dingo hole in the UK? Actually, do dingoes sleep in holes? Only if there's no hotel rooms available. A little dingo joke there.

So, what are they planning to do to improve the situation down-under? The Murray report has proposed the creation of a 'comprehensive income product for retirement' at the point of switching from accumulation to decumulation and which would blend an account-based product with an annuity-style element. But developing an annuities-type market will be tricky, not least because the 1992 revolution spelled the end for Australia's life offices. "We don't have life offices, the reserves or the expertise so it's not possible to return to annuitisation," says Resnik. So what does he think the UK needs to do to ensure the success of pension freedom? 'Good' looks like an industry that manages to avoid alienating its customers. The key lies in engaging savers so they don't desert the industry and go it alone. "It's not about financial literacy. The industry has to work hard to say 'this is your money' and get them actively involved," he says. **"The big thing to do is work hard on engaging people. Innovation will be in engaging people, you've got to build relationships with people wherever you are in the sector."**

STARS, STRIPES AND 401K PLANS

Australia's not alone in offering pertinent lessons from the experience of opening up pension freedom. But perhaps the US offers a slightly more upbeat example. The US, like Australia, is a mature DC market in which investors have long enjoyed far greater flexibility than those in the UK.

There's only so much to take from comparison with the US, given annuities have never been the cultural norm across the pond, but there are some behavioural pointers to chew over.

Most people wait until they are 70.5 before taking cash from their personal retirement accounts; the age 'minimum distributions' have to begin. Just 18% of people aged between 60 and 69 raid their retirement accounts in a given year, according to State Street research and just 7% take more than 10% of their total pot. Even after the age of 70.5 the percentage of balances taken is around 5% a year. But even in the US there are concerns that too many people are outliving their savings. Deferred annuity contracts have been introduced to the default investments in 401k plans (retirement accounts) and tax relief is being offered on them in a bid to accelerate take-up.

There's a lot to learn from the experience of the US and Australia, both in terms of what good might look like and the mistakes to avoid. The unavoidable theme is that people can and do run their funds down to zero. It's been talked about over here but we can see the reality and impact in Australia and, to a lesser extent in America. The UK would do well to heed these lessons. Australia is past being able to turn the ship around but the UK still has scope to avoid getting into those well charted, if shark-infested, waters in the first place.

BE CAREFUL WHAT YOU WISH FOR: FINAL THOUGHTS

We're all familiar with this saying, usually from those who are older and wiser than us and can see that whatever we're hankering after is A BAD IDEA. Like growing older itself. That's not a bad idea, quite the opposite. No, it's the way we rush it. When we're kids it's all about being adults; staying up late and not being nagged to tidy your room.

It never turns out that simple, though, does it? It's less beer, late night movies and X-rated assignations with comely persons of your chosen gender and more worrying about paying bills; trying not to damage your kids so badly they'll choose a really bad care home for you, checking the pension statement and regular attendance at the Sub-Steering Group for Strategic Product Alignment.

But then, one day, ah, one day you get to reap the rewards of all that boring savings stuff. That's something to look forward to, isn't it? And now you can get your hands on the whole lot at 55 with no limitations. You don't even need to retire.

So how does this affect our key players in the newly freed up pension landscape?

ADVISERS

All things considered, we think advisers are doing OK. It's always been a tough gig and and in some ways it's getting tougher, with new rules, new(ish) products and funds and a new wave of consumers who are either more clued up about the whole thing or just think they are.

One big challenge for advisers at this particular moment is that there's just so much noise in the background. And while that noise might be all kinds of interesting, it's a distraction and can pull you away from the number one priority of carrying out your duty to clients and protecting their best interests. If you're finding this more of a struggle that you had anticipated, TPAS probably has vacancies.

For those not planning a career change, we've gone a bit Zen and come up with the lang cat's serenity prayer for advisers:

The Adviser's Serenity Prayer

May the FCA grant me the:

Grace to refrain from entering into protracted comment threads on trade press articles about regulations that cannot and will not be changed,

Courage to focus my attention and resources on the current and future financial well-being of my clients, which can be changed (for the better)

And the wisdom to not only know, but to acknowledge and act upon the difference.

Pretty deep, huh? No matter how interesting you find it, pensions policy is not an adviser's job. Looking after the client is. There are clues. Being called 'an adviser' for a start. It's just a case of digging deep and finding the serenity to accept it.

There is a very real chance that some, maybe many, consumers will run out of money during their retirement. The chances of this happening are reduced by sound financial advice. Very few of the investors calling up providers to discuss their options are in an active advice relationship. If the prize is a financially sound retirement for your client, then we think it's definitely one to keep your eye firmly on.

PROVIDERS

The assumption among providers appears to be that taking money out of pension savings is actually good for encouraging the act of saving. Drives engagement, don't you know. If you're engaged, you'll save more money with us. Just taking the fund and not saving more with us? Hmm, well, you're just not engaged enough, are you?

Meanwhile, back in the real world…

Lifecos in particular will experience outflows that were never part of the plan. Much of this will be from older products, the ones which propped up PVNBP calcs (remember them?). Allowances were made for early exits but nothing on this scale. That drop in AUA will create more issues than a certain high profile boy-band resignation.

Not to worry! People know they can access their money (they proved that by taking it out) and that will make them engaged so they're bound to invest more money with us. Phew! Right?

Well, no. At least we found nothing to support that theory in any of the research we looked at (and there was a lot of it). Don't confuse new potential for decumulation with a boost for accumulation. The two aren't correlated and there is no fast track to getting people to engage with saving. A bit of excitement in the mainstream press does not an accumulation market resurgence make.

That this drain is laser-targeted at siphoning off the most lucrative element of XYZ Life's back book is another source of pain. It's a fact that the older contracts will go first; either externally or internally to newer, less profitable products. How can that business – or more critically the value of that business – be replaced? It won't be with more of the same, that's for sure.

For more modern providers, platforms mainly, ISAs have been gaining ground as the retirement income top-up mechanism of choice among cats of many degrees of fatness. Which raises the question of the degree to which pensions and ISAs are really distinct from one another? From the investor's perspective it's a balancing act of additional charges against the advantage of tax relief; on paying tax at source or on the proceeds.

But that tax relief means an extra 20% of charges for the provider. Yay SIPPs! The administration of a SIPP is more complex than that of an ISA, but can differential pricing really be justified? If we are approaching a point where pensions and ISAs are increasingly interchangeable then why not one single charging structure across the whole pot (for those who don't already)?

CONSUMERS

You can't make people engage with something when they don't want to, or don't feel that they need to. People will choose to engage if something meets a need, grabs their attention and works in their favour.

Just like teenagers who wanted their own front door keys and no stupid curfew (Muuuuum, like, how, like, unfair is that?) investors have long wanted access to their pension pots. Or so the government keeps telling us. We've looked through a lot of consumer research in the process of writing the Guide (we might have mentioned) but that need, that urgency of wanting access and control has never really been much in evidence. Options, yes. Not being stuck with an annuity, absolutely. Limitless access, not so much. Anyway, whether they wanted it or not, investors now have the freedom to access their pension; the key to that particular door. They have freedom but what they lack is protection; specifically from the scammers who are busily setting up shop, but also from something as simple yet fatal as poor decision-making.

We'd argue that, unless an individual has other sources of income, and guaranteed ones at that, can they be sure that they aren't going to run out of cash? Remember all that consumer research we ploughed through? Guess what kept cropping up?

RUNNING THE NUMBERS

Guaranteed income is a priority for 70% (ILC)

75% favour a secure guaranteed income over one linked to the markets (ILC)

41% worry about outliving their retirement income (MetLife)

25% intend to secure long-term guaranteed income with an annuity (NAPF)

We're not doubting anyone's intelligence. Not at all. A lot of good people have made it this far without coming a cropper whilst working bread out of a toaster with a metal knife. Healthy pension pots have been accumulated and maintained. Mid-level newspaper sudoku is totally doable on the bus. But none of that helps with the maths of how long we might live (OK, perhaps the toaster thing), and how much we'll need to live on during that time.

We can't help our engrained fatalism. We're British, after all. What we can help is the timeframe we attach to the context of retirement planning. So, if you're an investor with a pot of, say,

£40K with £10K earmarked for a new kitchen, the context for that remaining £30k might be 'Will it last me until I'm 90?'.

Advisers use a similar planning window as a matter of routine. This is something providers can and should be picking up on, particularly in the direct market. Less focus on scenic locations for older people to look happy and more on encouraging the thought process of 'Will it last me until I'm 90?' will be much more effective in encouraging consumers to take control of their own retirement income destiny.

END TIMES

In putting this report together, we've found reality clashing with theory on many occasions. Public spokespeople for providers cry one, idealistic, version of the truth; those battling to get through to the call centre cry another. We're not surprised by that – it was ever thus, but we wish it were otherwise.

We said it earlier, but having been in and around the pensions market for (collectively) something like 150 years, it strikes us at the lang cat that the pensions market is reaping what it sowed. The strictures, opaque charging structures, awful investment options and indecipherable terms and conditions of far too many policies have contributed to a quite understandable desire for consumers to get the hell out of here. We don't blame them one bit.

Maybe none of it matters. We'll (probably) have some form of Universal Credit, which everyone will get (it being universal, you see). If you spend your pot wisely and have a comfortable retirement as a result, good for you. If you spaff it all away in 2 years on hookers and Columbian marching powder, good for you. You won't be falling back on the state any more than anyone else.

But in the meantime, it turns out that what we have to do to stop the worst excesses (and the lang cat's Third Law of Embuggerment) is just to care about the poor sod at the end of the line. Something the industry has outsourced to advisers for a long time ends up being the core competency more valuable than any other.

Let the legacy of this extraordinary period be that the pensions industry allowed its navel to go unregarded for a time, while it attended to the needs of the people whose money makes it exist in the first place.

No, us neither.

IF YOU DO NOTHING ELSE, DO THIS…

ADVISERS

- Ignore the noise. It's all about the client, their needs, priorities and well-being.
- Focus less on worrying about providers stealing your clients and more on fulfilling their advice needs. A client in an effective advice relationship will not be calling up providers to discuss their options.
- Your target clients will almost certainly behave themselves. But beware the 'long tail' of clients who aren't in your 'A' list – are they heading off the reservation?
- When sending newsletters or communications about pensions freedom, keep it very basic. No-one needs to hear about UFPLS. The simple tax treatment of encashment should be message 1.

PROVIDERS

- Don't assume consumers will engage with you or your products, just because you think they should. It's up to them and they will decide. Remember what Paul Resnik said: "The big thing to do is work hard on engaging people." It's not something that just happens.
- Look at your proposition from the consumer's point of view and ask yourself – is that what they really want? Does it meet their needs? And at a price that's fair to them? What makes it stand out from all the very similar offerings in the market?
- Learn from this. Business predicated on impenetrable terms and conditions, that ties people in contractually will, eventually, turn and bite you on the ass.
- For those still prevaricating on publishing charges: get it sorted. And publish in a form which makes it easy for advisers and clients to compare.

CONSUMERS

- Assume you'll see your 90th birthday and that whatever pension pot you have must see you right at least until then. Most people appear to share the desire for security but without quite grasping how long regular income needs to last.
- Part of achieving this is always assuming that any offers of 'assistance' in accessing your pension which sound too good to be true are just that. Big one-off purchases or cash withdrawals might also seem like a good idea now but think about the impact on Project Paying the Bills at 90. Proper advice is a big part of this.

WHEN THE LEVEE BREAKS: WHAT NEXT FOR THE UK RETIREMENT SAVINGS MARKET? the lang cat

Oh cryin' won't help you prayin' won't do no good
Oh cryin' won't help you prayin' won't do no good
Whenever the levee breaks mon you got to lose

do what you love

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