



FINANCIAL TECHNOLOGY RESEARCH CENTRE

Market Evolution Report

Alternative Retirement Products
including Variable Annuities & Third Way Products

Project Overview

Contact Details

Financial Technology
Research Centre

T: 020 7863 0863

Ian McKenna
Director

E: ian.mckenna@ftrc.co.uk

Samantha Smith
Head of Marketing & Admin
E: samantha.smith@ftrc.co.uk

Alternative Retirement Products herald new styles of contract, designed to offer consumers greater certainty over the income they will receive from their accumulated assets at retirement whilst at the same time improving on the return that can be achieved relative to a conventional annuity.

A wide range of new plans have been launched with diverse product features. Large numbers of advisers are currently struggling to recognise how these products best fit into the advice process. Due to such uncertainty advisers are reluctant to recommend products they find more difficult to justify.

The **Market Evolution Report for Variable Annuities & Third Way Products** provides:

- Proposed advice process for subject product (tested with advisers)
- A detailed summary of the project activity and findings
- A decision tree of the advice process
- Requirements for comparison tools
- Prioritisation of these requirements
- An executive summary
- Thought leadership
- eCommerce requirement for life offices in this market

Advisers who participated in this project:

- | | |
|-----------------------|--------------------------|
| ▪ Annuity Bureau | ▪ Money Portal |
| ▪ Annuities Direct | ▪ Park Row |
| ▪ Bankhall | ▪ Positive Solutions |
| ▪ Burns Anderson | ▪ Royal Bank of Scotland |
| ▪ Clareville York | ▪ Sesame |
| ▪ Hargreaves Lansdown | ▪ Simply Biz |
| ▪ Heath Lambert | ▪ Thinc |



“The Alternative Retirements Product Research provided a perspective which had never previously been explored by any other research company. The work examines the impact that new product innovation in the retirement market has had on the advice process and the different considerations that need to be borne in mind by the adviser community and their compliance departments. The results of the research are an invaluable tool for any advisory firm serious about working in this market.”

Janine Menasakanian
National Account Director, MetLife
Europe Ltd

Alternative Retirement Products
Market Evolution Report

Post Publication Price:
£10,000 + VAT

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What the provider participants said



"I believe your work has done much to prompt, identify and document the common needs of individuals approaching, at or indeed, in retirement. FTRC has produced a robust and highly detailed piece of analysis that can only bring to life a far greater, more accurate awareness of needs in retirement, set against known and lesser known sources of income. I am passionate that we succeed in assisting the customer and adviser in this market and your work will do much to encourage confidence in this area. I believe that in a baby-boomer generation, the industry must do more to appreciate the significance of this customer base and their complex needs. Your work will do much to initiate the discussions now urgently needed between provider, adviser and customer. "

**John Brewer - Senior Product Development Analyst
Marketing Retirement Planning, Standard Life**

"Participation in the FTRC research by AEGON has proved to be extremely beneficial for us. Adviser engagement with the research was impressive and the logistical aspects of bringing together such a diverse group of Advisers and Manufacturers was handled efficiently and professionally.

The conclusions of the research were portrayed in a clear and understandable way that allowed for the maximum engagement of the various audiences and we were particularly pleased to see that our thinking was confirmed by the research findings".



**Dominic Holmes - Head of Sales & Distribution (Individual Pensions)
Aegon Scottish Equitable**



"The feedback we get from Advisers shows that they are crying out for help in understanding when alternative retirement products are suitable for their clients and where they fit into the advice process. The work that FTRC have done in this field is detailed and the process that they have constructed as a result is very usable; having been garnered from qualitative research with some top IFAs firms. This is a giant step forward in the advice process for alternative retirement products."

**Simon O'Connor - Head of Products & Marketing
Lincoln Financial Group**

Alternative Retirement Products - Methodology

Contact Details

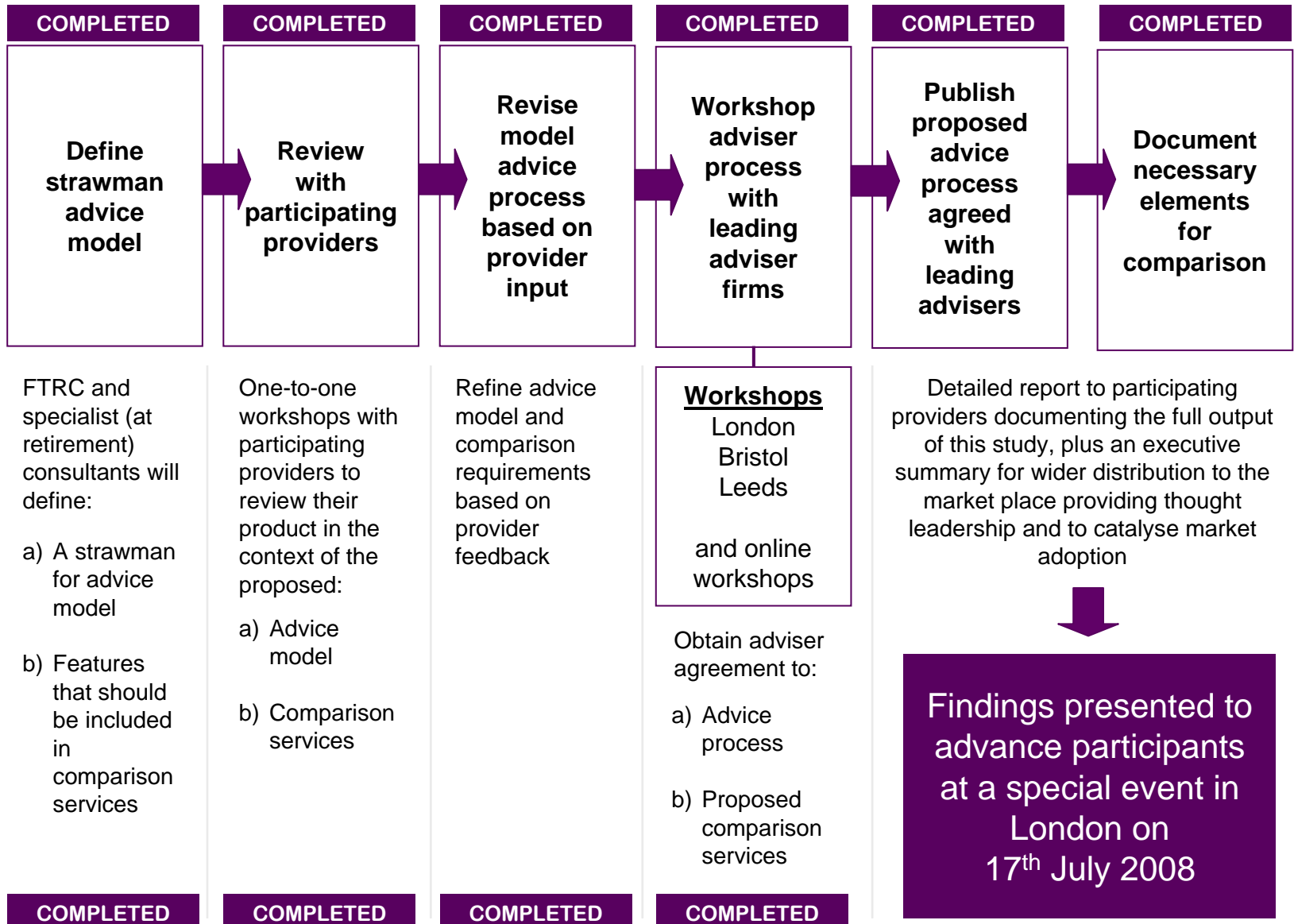
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Background

- In recent years a range of new style products have emerged that are designed to offer consumers greater flexibility and choice in the way they take their pension benefits. Alternative retirement solutions allow for a guaranteed income and potential for investment growth which the traditional at retirement products (Annuities and Drawdown) have previously been unable to combine.
- The extra facilities available for Alternative Retirement Products (ARPs) are not easily comparable within the traditional advice process, which has been a barrier to wider adoption up until now.

Objective and Rationale

- Working with providers of ARP solutions and distributors this project identifies the key issues that need to be addressed and will also tackle proposed next steps to put in place the facilitate comparison measures.
- One of the major barriers has been that ARPs solutions do not fit the traditional advice process centred on Annuities and Income Drawdown. By working with adviser firms one of the key features of the study is outlining potential proposed changes in the advice process to accommodate these new style products. This will in turn provide a robust compliant process to take advantage of the opportunities that post retirement advice can allow.
- As part of this work we have reviewed the current ARP landscape and focused on how these products can sit within the evolution of the 'at retirement' advice process.

Issues and Challenges

- The value of Alternative Retirement Products is generally misunderstood, particularly the significance of any guarantees as adviser focus has historically been around the cost as opposed to the benefits of offering a guarantee.
- This has been muddled since products are not easily compared on a like for like basis. For this reason greater understanding and transparency is needed within the industry.

Size of market

- Historically adviser focus has been heavily centred on the accumulation of assets at the pre-retirement stage. With the stagnation of the transfer market and little new monies in financial services advisers need to consider other lucrative alternatives such as the "at" and "post" retirement market. With the latter, clients will have a sizable pot of assets built up over many years with which to invest and need financial advice to ensure the longevity of their income and protect their legacy.

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Market Evolution Report Synopsis (cont.)

Evolution of advice

- Whilst the “at” and “post” retirement market is potentially profitable to advisers they need to review their advice processes to adapt to a changing model. This will focus on income planning throughout the client’s entire retirement which can constitute an additional 25+ years.
- A major question with increasing life expectancy is can consumers afford not to seek expert financial advice to ensure that they do out live their income and their changing living and lifestyle needs are accommodated.

Case studies

- To focus advisers on making the opportunities and challenges real, case studies and strawman showing the benefits and pitfalls of alternative retirement planning have been drawn up which can be adapted to suit their own business models.

Comparisons

- As a part of this work and to remove the barriers to wider adoption, FTRC will draw out the comparable features to enable advisers to make a clear and informed decision on Alternative Retirement Products

Provider e-com services

- Alternative Retirement Products to be viable to advisers business efficiencies will be at the forefront of adviser selection criteria as the cost of adviser is coming from a decreasing pool of funds.

Next steps

As this study focuses mainly on the removal of barriers to wider adoption a thought leadership piece will be distributed to the wider industry later in the year as:

1. Money Marketing Supplement
2. Industry briefing

Phase I of this project has focussed on Insurance based Alternative Retirement Solutions. A natural progression is to look at other potential non-pensionable assets such as a clients home, which will be covered in Phase II of this project

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What the Adviser Participants Said



“We really liked the concept and will definitely be using this in the future to develop our training and development material for our advisers”

“This work highlights a lot of the issues surrounding these products and retirement advice in general. It is current very difficult to gain an understanding of the products in this area and this work has raised points that we had not considered. A lot of advisers are looking to use these products but are unsure of how to advise them so any piece that helps is useful.”



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“There’s general confusion in the market about what a 'third way' product actually is. I think that the use of 'alternative retirement products' is perhaps more appropriate. We are aware of the need for us as a company to monitor the situation and adapt the advice process accordingly which this work will help with immensely.”

“I enjoyed your workshops and appreciated the opportunity to compare our approach to that of other firms. We are currently conducting a review of our at retirement sales process specifically in order to assimilate 3rd way type products and will definitely use this in helping to shape our policies.”

