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Balancing pension freedoms and risk in the modern advice world

January 2020

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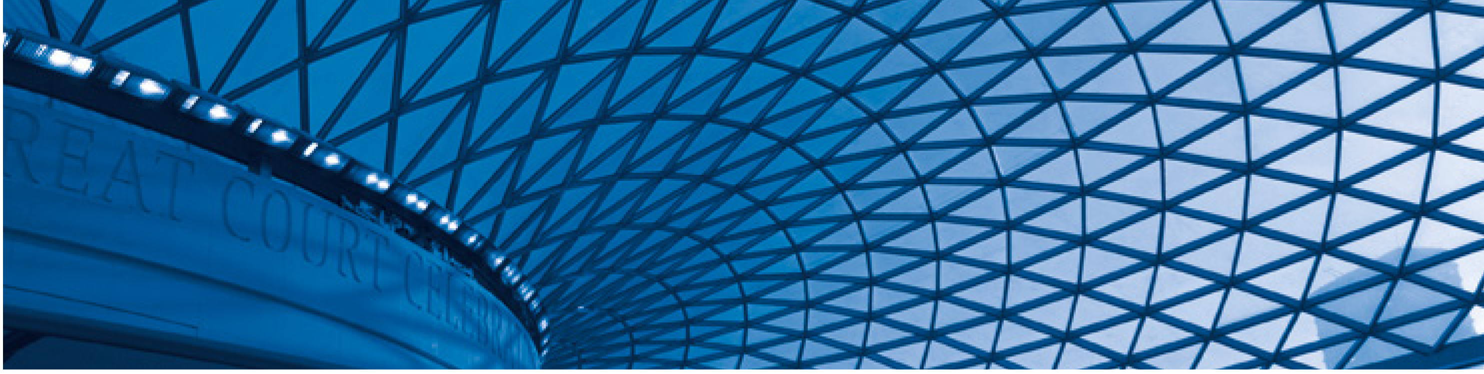
Contents



Introduction

It is now five years since the announcement of pension freedoms, and four years since they were passed into legislation. In the grand scheme of things, it is still very new, but that has not stopped retirement outcomes being the subject of regulatory scrutiny.

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The truth is, as has been highlighted by the FCA in their MS16/1.3 Retirement Outcomes Review Final Report from June 2018, there has been a lack of wholesale product innovation. Having said that, there is no doubt that the market has evolved with new flexible options available to investors that were simply not possible pre-pension freedoms.

One of the initiatives came from Retirement Advantage when it launched The Retirement Account, combining the ability to take a guaranteed lifetime income like an annuity with the flexibility of drawdown through a single personal pension (PPP) wrapper.

In January 2018, Canada Life completed their takeover of Retirement Advantage.

In November 2019, Canada Life launched a completely new version of The Retirement Account. This has a different structure and different fund ranges to support varying client needs, both in the accumulation and decumulation stages. It can also accommodate the Centralised Investment Propositions (CIP) and Centralised Retirement Propositions (CRP) of advisers.

The product continues to offer the feature from which it began, which is offering a multi-purpose solution with the capability of taking flexible and guaranteed income together through the same contract, allowing clients to fully utilise pension freedoms.

However, it has been developed specifically with the challenges advisers now face as part of their advice processes. This is a new product for an evolving market, not simply a relaunch.

This document is split into two parts.

The first part will evaluate how the market landscape sits currently, and it will also summarise current legislation and the options available to clients upon retirement.

The second part will review and analyse The Retirement Account from Canada Life and how it could be used to meet the needs of clients accumulating funds, consolidating pension monies and/or looking to take benefits.

Learning objectives and acronyms

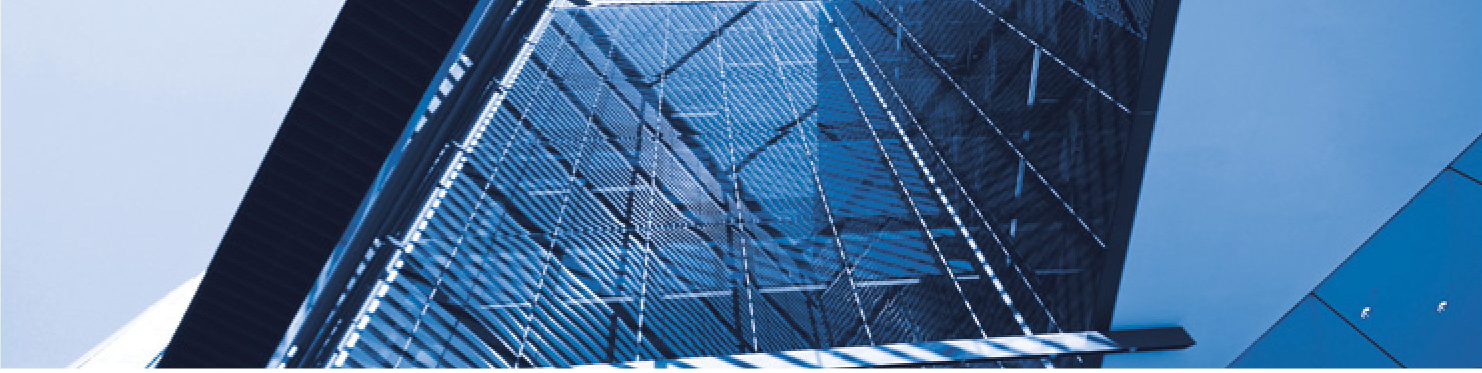
Reading this document will enable you to:

1	Understand the retirement landscape and secure good knowledge of the range of solutions which exist (drawdown and annuity based).
2	Understand the key aspects of regulation surrounding a retirement strategy and the more recent changes and updates.
3	Understand and appreciate the various risks (not just market and investment) that exist in running a retirement income strategy.
4	Understand the different retirement choices and retirement income options and how they meet differing customer needs.

The most common acronyms used in this document are:

ABI	Association of British Insurers
CIP	Centralised Investment Proposition
CRP	Centralised Retirement Proposition
DB	Defined benefit
DC	Defined contribution
DFM	Discretionary fund manager
FAD	Flexi-access drawdown
GAD	Government Actuary’s Department
MPAA	Money purchase annual allowance
NRA	Normal retirement age

OEIC	Open-ended investment company
OCF	Ongoing charges figure
PCLS	Pension commencement lump sum
PPF	Pension Protection Fund
PPP	Personal pension plan
SAA	Strategic asset allocation
SIPP	Self-invested personal pension
TAA	Tactical asset allocation
UFPLS	Uncrystallised funds pension lump sum

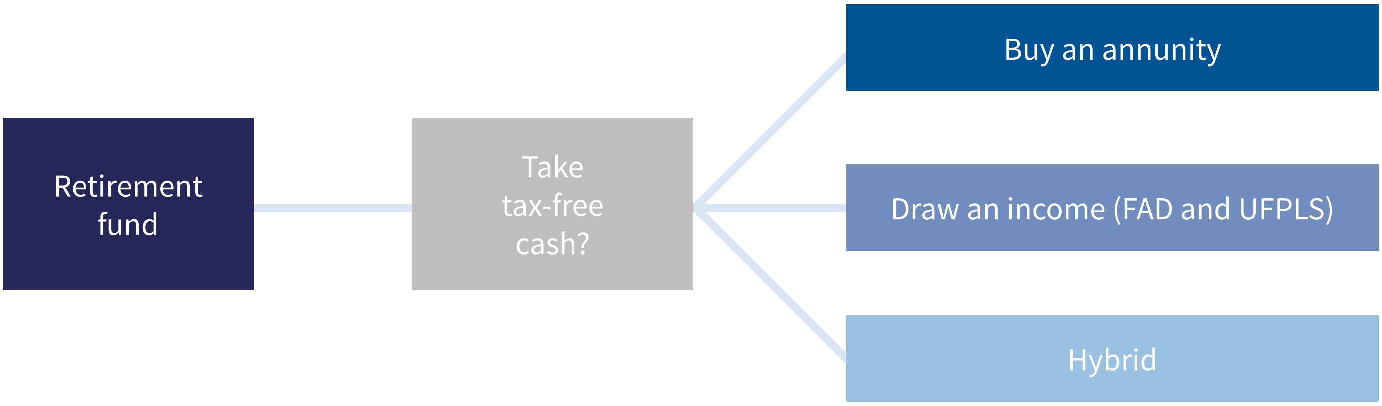


Part 1: The pensions landscape – four years on from pension freedoms

Retirement options

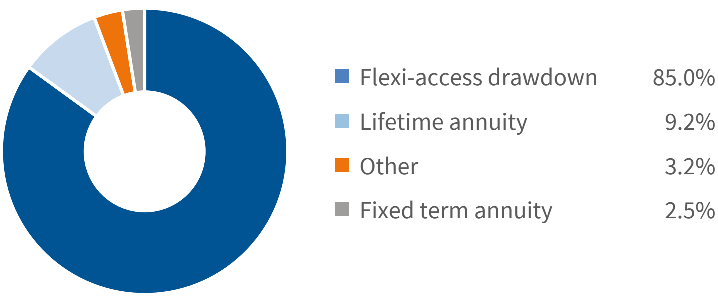
Low annuity rates (for those unable to satisfy enhanced annuity qualification) caused by low gilt yields, as well as a lack of flexibility and perceived poor death benefits, has meant many pension savers no longer wish to tie themselves into an annuity for the remainder of their life. Pension freedoms now mean they do not have to.

There are essentially three options available to clients at retirement:



In our latest pension satisfaction survey, which assessed advisers' opinions on the services they receive from providers, we asked advisers what percentage of their business they place in specific retirement solutions. Chart 1 shows that 85%[1] of the value of retirement business was invested in flexi-access drawdown, while only 9% of the value was invested in lifetime annuities.

Chart 1 : Average percentage split of income solutions recommended by advisers



Source: Defaqto Pension service review, 2019

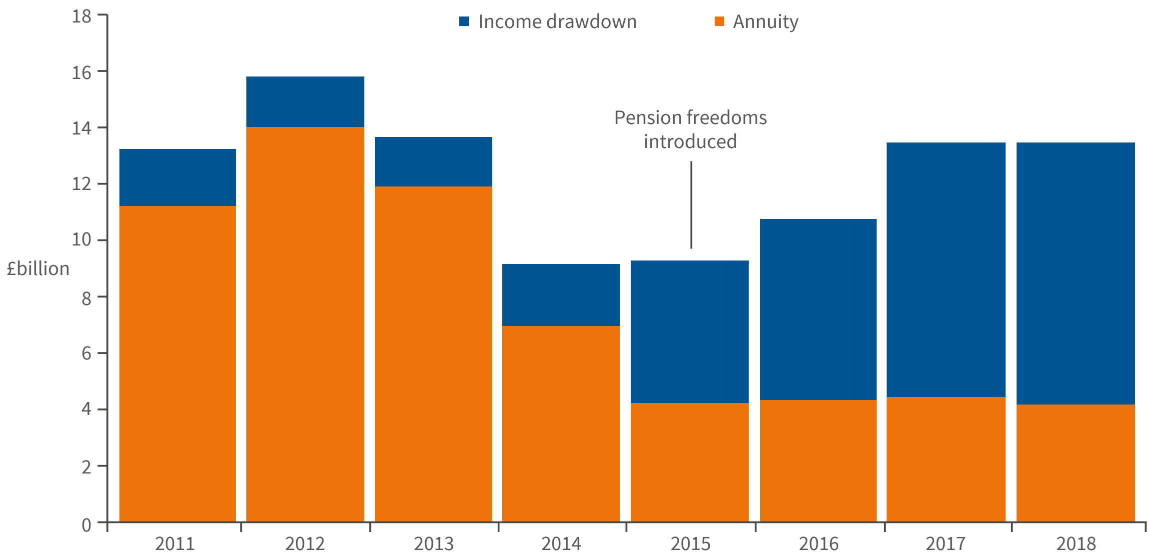
[1]485 adviser respondents

These figures, and the desire to maintain the flexibility that drawdown provides, possibly explains the reduction in annuities available to new business. The FCA's MS16/1.3 also confirmed that twice as many pots have been used to purchase drawdown than an annuity.

Seven pension annuities and four invested annuities have closed since the start of 2015 according to Defaqto Engage, which accounts for more than half the available 'brands' in the market. There were seven pension annuities open to new business as at 30 October 2019. The last of the available invested annuities left the market in September 2019.

The Association of British Insurers (ABI) figures, shown in Chart 2, support the theory that annuities have become less popular. Drawdown popularity has increased post-pension freedoms, although sales by £m and total annual premiums have steadied to a fairly consistent level in more recent times.

Chart 2: Annuity market reduces while drawdown is on the up



Source: ABI – based on total premiums per year

Despite the contraction in the annuity market post-pension freedoms, annuities remain the only way to guarantee a secure level of lifetime income. Perhaps the more recent stabilisation in sales is due to this realisation now the initial demand for flexibility generated by the new legislation has abated.

As you would expect, most individual pension products provide flexi-access drawdown functionality. In fact, of the more than 150 PPP and self-invested personal pension (SIPP) products for which Defaqto Engage holds data, 96% provide this.

However, offering flexi-access drawdown doesn't necessarily mean that a product can accommodate the variety of different scenarios an adviser may wish to use when planning their client's retirement.

There are many different scenarios and ways in which providers structure their products to allow this type of 'phased' drawdown. These allow not just flexibility but the ability to manage the client's income tax efficiently.

Prior to pension freedoms, the only real alternative to taking an annuity was capped drawdown. Here, the level of income one could take was limited to 150% of the Government Actuary's Department (GAD) figures. Flexible drawdown was also available but required a minimum income from other sources, effectively closing it off for many.

New capped drawdown arrangements cannot now be set up; only existing capped drawdown members can remain so (unless it is via a transfer for a product already in capped drawdown), while flexible drawdown plans were converted to flexi-access drawdown.

One advantage of capped drawdown is retaining the normal pension contribution annual allowance of £40,000 for 2019/20 (the maximum amount at which pension contributions can receive tax relief). It is for this reason that some products allow clients to remain in capped drawdown after transfer.

As soon as an individual accesses their pension flexibly (above 150% of GAD, via flexi-access drawdown), it triggers the money purchase annual allowance (MPAA). The MPAA is a reduced annual allowance of £4,000 and is applied when a client commences taking income, excluding the pension commencement lump sum (PCLS).

This is advantageous for those clients who wish to phase in their retirement by reducing their working week, or topping up their salaried earnings while continuing to contribute to a pension scheme.

Those clients in capped drawdown may be able to convert to flexi-access drawdown if they transfer to another provider, or even while remaining with their existing provider, thus allowing for greater flexibility. Equally, some providers may accept a transfer in of capped drawdown benefits but will automatically convert this into flexi-access drawdown.

In both circumstances, advisers must be mindful that doing so will trigger the MPAA.

Advisers must always be aware that conversion from capped drawdown to flexi-access drawdown will trigger the money purchase annual allowance

The alternatives

With the advent of pension freedoms, there was some expectation of innovation in the industry, in particular a solution for combining the need for guaranteed lifetime income to cover regular costs and a more flexible level of income for the more ad hoc things in life.

In the aforementioned pension satisfaction survey, only 5% of advisers stated they used an alternative to the two main types of income source (drawdown and/or annuity). However, in a syndicated research study conducted by Cicero Research which incorporated Canada Life, and was released in February 2019, 45% of advisers asked said over half their clients (sample of 100) use a blended or hybrid approach to retirement.

What is unclear is whether this is due to the lack of alternatives being offered, or a general lack of engagement with the innovations that have taken place, either through lack of understanding or apathy. It is however clear that advisers' clients are looking to utilise the different types of planning opportunities that pension freedoms has brought about.

It would be slightly unfair to suggest that the industry as a whole has not tried to make some inroads, but it has become clear that where one provider moves, others do not always follow.

Fixed term annuities, which despite the name are not actual annuities, have been available for some time. They are written under drawdown legislation, with the objective of paying a regular income for a fixed period of time, sometimes with a guaranteed value at maturity. There are four providers in this space, of which Canada Life is one.

Separately, since 2016, the only three providers of a type of unit-linked guarantee product using drawdown rules closed to new business, citing low interest rates and therefore the higher costs of the guarantees they use as factors.

Both Partnership and Retirement Advantage launched products utilising a pension wrapper to purchase an annuity as a trustee investment. The benefit of this structure is that the client can receive the income paid out by the annuity into the pension bank account, giving the flexibility of then either taking this income or reinvesting it within the pension wrapper.

Partnership's product closed in 2016 following their merger with Just Retirement.

It is therefore understandable to see why the FCA and the wider industry consider that there has been a lack of innovation in the retirement space.

Perhaps advisers feel comfortable that they can structure a retirement strategy for their client using individual products already available to them through partial annuity purchase or defined benefit (DB) transfer to fund a secure income and a flexible income via drawdown. Perhaps also there has been an element of biding their time before committing to a new product innovation based on the history of products launching and closing. What is certain is that any new products or ideas need to be considered by advisers and must form part of retirement planning. An independent financial adviser must consider a sufficient range of suitable products, and the wider features and benefits that they offer their clients.

Death benefits

As well as the unprecedented access to a pension pot, pension freedoms brought about a key change to death benefits, which should make pensions front and centre of any legacy planning by advisers.

Beneficiaries are now able to inherit the deceased's drawdown pension tax free if death occurs before age 75[2] or at the beneficiaries' marginal rates of tax if death is on or after age 75. In addition, beneficiaries can then choose to receive the deceased's pension fund as a regular drawdown income payment or alternatively take it as a one-off lump sum payment. Two new definitions of beneficiary were introduced alongside the existing definition of dependants, and the same rules apply.

Dependant	Spouse, civil partner, individual under 23 or financially dependent on the client
Nominee	An individual nominated by the client who is not a dependant
Successor	An individual nominated by a dependant, nominee or preceding successor

Regulation

Pension freedoms

It was 2014 when the Chancellor of the Exchequer surprised many by announcing pension freedoms and changing the industry, seemingly, forever. Over the course of the following year, before their launch in April 2015, we discovered how they would be facilitated.

The introduction of flexi-access drawdown has enabled individuals aged 55 or over to choose any level of income, regardless of its sustainability.

The FCA has raised some concerns about the consumer outcomes that are taking place as a result of these changes, in particular those who access their pension pots via flexi-access drawdown and do so without the use of an adviser.

Their final report on the Retirement Outcomes Review from June 2018, MS16/1.3, confirmed some key statistics it had researched following the changes. One could perceive the results as concerning as they show that 33% of non-advised consumers have their drawdown investments in cash, receiving low rates of interest. As such, they are potentially missing out on pension pots up to 37% higher over 20 years if they were to move their pensions into a mix of different assets. It also showed that 94% of consumers not taking advice had taken the default route of setting up drawdown with their original pension provider.

PS19/1 was published by the FCA in January 2019 as part of their Retirement Outcomes Review, to give final rules and guidance. This policy statement outlined specific expectations of providers when clients are nearing retirement, such as 'wake-up packs' and risk warnings.

It also made proposals for providers to offer retiring clients a selection of 'Investment Pathways', which then led to the consultation paper CP19/5 that reviewed how the proposals should be introduced and applied then confirmed in PS19/21 published in July 2019. The desired outcome is to protect consumers from poor outcomes and to further promote competition.

As a result, the adviser's role has become ever more vital in ensuring that their existing and prospective clients' pension pots last for their entire retirement, particularly at a time when people are living longer.

[2] Must be designated to beneficiaries within two years or income tax will become payable.

The Markets in Financial Instruments Directive II (MiFID II)

MiFID II came in from January 2018, following the initial MiFID regulation in 2007.

While it does not apply to the pension products specifically, it does relate to the underlying investments that those pension products allow clients to invest in.

The FCA's Policy Statement, PS17/14, from July 2017, confirmed their expectations of advisers in the post-MiFID world and how the directive will be applied.

Inducements, both monetary and non-monetary, accepted by advisers in connection with their financial advice were banned. This also included portfolio management services.

The statement also brought in an increased expectation that advisers document their conversations with clients.

Advisers are also expected to set out to clients on annual basis the fees they have paid for both the advice they have received and the investments into which their money is placed.

Product Intervention and Product Governance Sourcebook (PROD)

Of more specific relevance to pension products, the FCA published PROD in January 2018, alongside MiFID II, placing expectations on both product providers and advisers. This brought them in line with some of the rules applied as a result of MiFID II to non-pension products, such as:

An adviser must:

1. understand the financial instruments it distributes to clients
2. assess the compatibility of the financial instruments with the needs of the clients to whom it distributes investment services, taking into account the manufacturer's identified target market of end clients
3. ensure that financial instruments are distributed only when this is in the best interests of the client

Equally, the adviser should be considering the impact of cost and the financial strength of the provider on their client.

Advisers are expected to take all reasonable steps to obtain sufficient information on the above for products covered by MiFID and those not covered by MiFID. Advisers should ask for additional information or ask additional questions if they feel what has been provided is not adequate – ultimately, they should not distribute the product if they do not fully understand it or it is not appropriate.

It is imperative that the adviser identifies the target market of the product based on the information from the provider and the knowledge of their clients and ensures that the cost and service offered by the product is appropriate for the client, or clients, for whom it is recommended.

Impact on the advice process

Any change in expectation of advisers to adhere to more legislation is going to lead to additional resource applied to it. With these key pieces of legislation landing, advisers may be seeking more sophisticated solutions to help with streamlining their existing processes so as not to reduce the level of service that they can provide, or increase costs to clients.

Platforms

One way of offering streamlined solutions is enlisting the use of a platform. Platforms offer a mix of technology, functionality and ease of service to support an adviser's day-to-day business, freeing up much needed time with clients.

In the FCA's Investment Platforms Market Study, MS17/1.3, it confirmed that in 2017, £311bn was administered on an adviser platform (where an adviser typically distributes their business, rather than an individual using execution only functionality). Equally, Defaqto's platform satisfaction survey for 2018 showed that 88% of adviser respondents placed more than half their investment business through a platform.

Centralised Investment Propositions

The same Defaqto survey also showed that more than a third of advisers are now using multi-asset funds for their clients, while around a quarter are using model portfolios provided by discretionary fund managers (DFMs) for outsourcing the investment propositions their clients use. As a result, many advisers have been able to move away from fund picking as well as wide ranging fund research and have developed CIPs based around their knowledge of their clients, segmenting them into different categories where necessary. Advisers will assign different strategies and solutions for each client segment.

Seven in ten advisers agree there is a need for a CRP

Source – Cicero Research carried out with Canada Life, February 2019

As a result of pension freedoms, the options available to clients at retirement have become more wide ranging. This has meant that some advisers have begun to build CRPs specifically for clients looking to take their pension benefits. CIPs are focused around growth as part of the accumulation stage to maximise pension savings. CRPs are developed for clients who will have different needs, the requirement to take income from their plan while looking to maximise growth on what remains, but which acknowledges a lower appetite for risk and volatility when a client enters this stage of their life.

Advisers have the tricky task of weighing up the need for streamlined solutions, such as CIP and CRP, with the regulator's expectation of individual client suitability. Therefore, advisers need to ensure that when putting together a centralised process, it is does not compromise their ability to tailor advice to an individual. As a result, solutions assigned to a specific client segment need to be wide ranging enough to allow this to be facilitated.

Platforms, typically, will provide a wide range of multi-asset funds, as well as links to DFMs to provide model portfolios. This means they can be used to build these adviser propositions all within a single solution.

Increasingly, and as part of ongoing competition between platforms, as well as increasing adviser need, we have seen technology added to them to further aid advisers.

The regulator is very clear that any use of tools provided by a platform should not be the key reason for an adviser looking to use that platform. Choice of platform should be driven by the client need and the cost implications. However, advisers should consider in their platform due diligence which tools would benefit their business, which in turn would allow them to service their client base better, without an undue cost implication for the client.

This drive for streamlined, time saving solutions for advisers, as well as the tools they provide, could all be considered as reasons for the increase in platform usage.

Risk and its impact on retirement planning

The introduction of pension freedoms has meant that many clients who move into drawdown are exposing themselves to additional risks that, in some cases, they would not encounter if they had gone down the traditional route of purchasing an annuity. Equally, some of the risks are very similar but are mitigated differently.

Advisers' roles have become all the more vital in ensuring their clients are aware of the risks and the income solutions chosen match their risk tolerance.

Table 1 gives an overview of the different types of risk that need to be considered.

Table 1: Risks to be considered

Restriction	Allowance
Market evolution	Risk that products may not be available or cost effective to meet needs at the required time
Longevity	Risk of living too long and exhausting the capital and income while still alive and, as a consequence, facing the reality of a lower standard of living for the remaining years
Inflation	Risk of inflation eroding the buying power of the capital and/or income produced
Sequence	A poor sequence of returns when income is being taken, especially in the early years, can have a detrimental effect on capital values and therefore the income available in the future
Investment	Risk of poor market returns that reduce capital sums and by association the level of income produced: • Systemic market risk – an event impacting on a specific market or asset class • Specific risk – a specific investment underperforming
Commitment	Risk of selecting a solution and not being able to change the product choice, benefit shape, income level or death benefits
Diversification	Risk of putting all your eggs in one basket, or too many baskets
Insurer credit and counterparty	Risk of failure of a provider of all or part of the solution
Political	Risk that a change in legislation and/or regulations will impact on the net benefits received
Timing	Risk of securing the level of income required at the time required
Interest rate	Risk that interest rate movements may adversely affect annuity style products and guaranteed or protected funds/solutions
Health	Risk that deteriorating health will bring about the need to access retirement capital or income to cover non-insured medical expenses and healthcare
FSCS	Insurance-based contracts, such as an annuity, carry 100% protection whereas a drawdown solution may be less

The risks highlighted in orange were flagged by the FCA in their news story from January 2017 called 'Advising on pension transfers: our expectations'. The report stated that these three risks must be made clear in any personal recommendation for a DB transfer.

Clients looking to access pension freedoms

While we have already discussed clients in accumulation and then at the decumulation stage, in recent times a further group has come to prominence. These are clients who wish to consolidate their existing pension pots into a single plan. There could be a number of reasons why advisers would recommend a consolidation of pension plans.

These can range from advantageous cost and/or tax planning benefits, ease of administration for the client or to take advantage of new legislation that legacy plans are no longer able to keep pace with.

Clients looking to consolidate their plans should be looking for help before doing so. The role of the financial adviser is to evaluate the benefits and drawbacks of doing so and ensuring the client follows the best course of action.

DB schemes

Pension freedoms are only available to defined contribution (DC) pension schemes, thus making them a desirable means of accessing cash, post age 55. As a result, members of DB schemes with their more restrictive retirement and death options have increasingly had their interest piqued by this new legislation, despite the many benefits of remaining in a DB scheme.

2016/17 – 67,700 transfers out of DB schemes

2017/18 – 72,700 transfers out of DB schemes

Source: The Pensions Regulator, May 2017 and May 2018

As shown above, the number of transfers out of DB schemes has increased since 2016. It should be noted that The Pensions Regulator estimates these figures may actually be higher, as not all schemes report how many transfers are carried out. It also flags that these are not all transfers to a DC scheme.

The popularity of transferring out has been put down to increased transfer values being offered by schemes due to the costs involved in maintaining the guarantees these types of pension scheme have built into them (due to low gilt yields). Also, the income flexibility and improved death benefits now offered by DC schemes are viewed as attractive.

In July 2014, HMRC issued a government response to their 'Freedom and choice in pensions' consultation. Under section 4.11 the document acknowledged that for some individuals a transfer out of a DB scheme may be advantageous. In particular, those people would be:

- Heavily in debt
- Those with short life expectancy
- Unmarried with no dependants
- Preferring wealth to an income stream

This is a considerable and seemingly growing area of opportunity for advisers. However, giving up a DB scheme or any safeguarded benefits could be detrimental to a client, regardless of how tempting the advantages of a transfer may look. In many cases, staying in the scheme will be the best advice.

Aware of this increased popularity, the FCA issued PS18/6 in May 2018, as final rules and guidance for advising on pension transfers in response to their earlier Consultation Paper, CP17/6. Alongside this, they published CP18/7, a consultation paper called 'Improving the quality of pension transfer advice'. A final policy statement on this was issued in October 2018, PS18/20.

Advisers looking to deal with pension transfers must familiarise themselves with the content of these reports and ensure their pension specialists have the appropriate qualification and understand the relevant advice requirements.

Indeed, PS18/20 included that advisers must consider the insolvency of the sponsoring employer, as a risk for DB transfers.

DB schemes are covered by the Pension Protection Fund (PPF) in the event the sponsoring employer becomes insolvent. However, the PPF only covers 90% of a client's pension entitlement before a scheme's normal retirement age up to a cap based on the client's age when the employer entered insolvency. If the client is over NRA, it is 100%.

As a result, advisers should consider the risk of the sponsoring employer becoming insolvent and the client receiving only 90% of their entitlement, rather than the full transfer value to a DC arrangement.

Some pension providers have ceased to accept DB transfers (at least temporarily) as a result of a 'Dear CEO' letter sent by the FCA to them in March 2019. This letter confirmed to providers the FCA's expectations of their responsibilities when accepting a client's request to transfer their DB scheme into the provider's DC scheme.

The FCA has an over-riding concern that consumers will receive poor outcomes as a result of the new flexibility available to them. Therefore it is no major surprise that the regulator is taking an active interest in a growing area of clients wishing to transfer their DB benefits.

Among other things, product providers were told that they are expected to show they have considered the needs of customers when transferring to them, particularly for those products created pre-April 2015. This is to ensure they are dealing with incoming business appropriately. They are also expected to have the correct management information in place to fully understand and manage DB transfer risks. Providers are also expected to ensure that they have second and third line reviews of all DB activity since pension freedoms were introduced.

Advisers should expect that a provider's product messaging is balanced, clear and accurate.

As a result, advisers will need to consider products and solutions which have the ability to deliver on providing beneficial outcomes when compared to DB schemes before recommending a transfer out of these safeguarded schemes.

DC schemes

Clients with multiple DC pension pots may have seen pension freedoms as a reason to re-engage with their products and advisers, particularly as they near retirement.

A typical approach would be to consider consolidating these plans into a single solution. The justification for the switch could be due to the higher charges and lack of flexibility in older legacy pension schemes or just the sheer inconvenience of multiple pots.

Where advisers are considering consolidation for clients to new products of some or all of a client's pension pots, consideration will need to be given to the drawdown options and flexibility available as well as the charging structures which apply and the investment solutions the new plan offers. This analysis will depend on the client's specific needs and retirement goals.

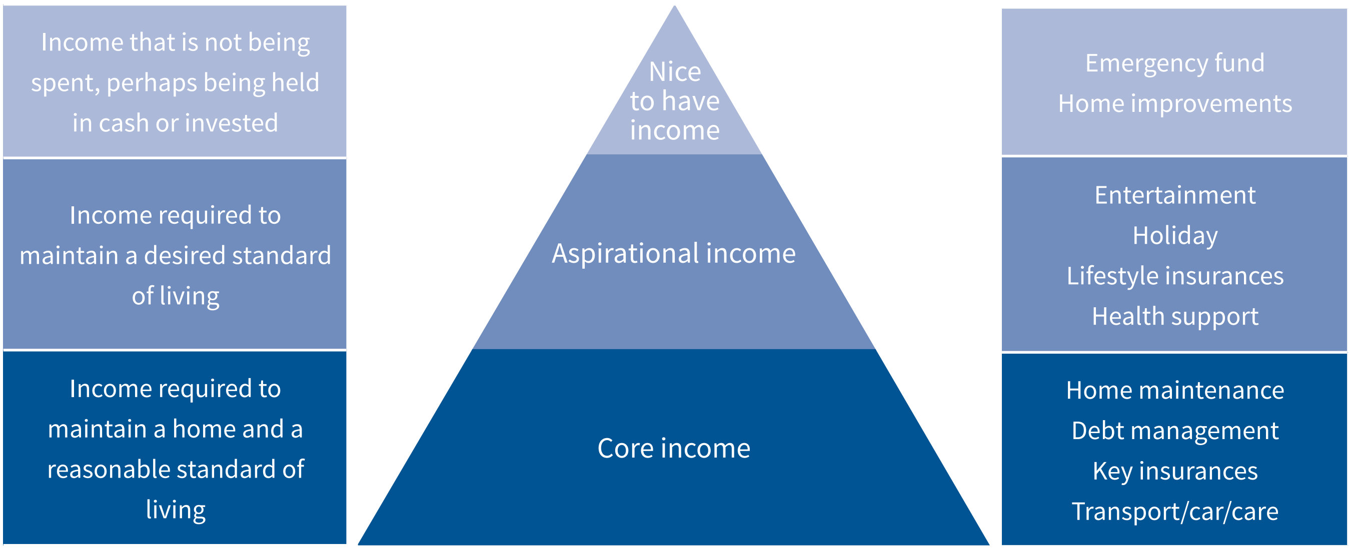
Equally, there are clients who are already in drawdown who may also be considering a switch from their existing provider. An example would be individuals who have entered drawdown with their current provider, and for whom pension freedoms has now meant that their provider no longer offers the range of functionality they require, or the provider has an uncompetitive charging structure.

What an adviser should consider before recommending taking pension benefits

Categorising different income needs

Obviously, without understanding a client's income needs, it is impossible to give suitable advice on how and when to take pension benefits.

It is vital the adviser understands core, aspirational and nice to have income needs. A skilled adviser will then be able to tease out of their client other planned expenditure which the benefits will need to be used for.



The adviser will have to plan for the client moving through the different spending stages of retirement. These are from the potentially early active years through to a decrease in spending as health restricts capability, then onto the times when home amendments may be needed until possibly entering full-time care.

If a client needs core income, advisers should consider an annuity as a logical solution as it is the only way to guarantee a set level of regular income payment for an individual's lifetime.

It is the additional income, aspirational and nice to have, where advisers will have to use their experience, expertise and knowledge to identify appropriate solutions to match these. The flexibility that pension freedoms has brought has meant that different drawdown strategies can be used to meet these needs.

Phasing of retirement benefits

Looking beyond the headlines of simply being able to access all one's pension benefits, advisers will have noticed planning opportunities for their clients in a post-pension freedoms world.

As retirees not only live longer but look to be more active in the early retirement years, advisers have to plan for this to ensure retirement income is sustainable.

The receipt of a state pension is no longer seen as being the date the client gives up work, more clients are looking to gradually reduce their working hours. Advisers will need to plan for topping up income as a result of this reduction in salary and before state pension payments are received. The state pension is still a vital part in retirement planning, as this additional income will need to be considered when it becomes payable, as well as any tax implications.

Clients will have different needs:

- some will need access to all of their PCLS immediately and then receive no taxable income
- others will require an income or to take the PCLS as an income
- then there are some who are prepared to take regular income payments made up of partial PCLS and taxable income or ad hoc payments as and when they wish.

It is therefore important that advisers are aware of the different ways of taking retirement benefits and the products that facilitate them. This is vital for both those nearing retirement and those in the accumulation stage, to help future proof the adviser's recommendation should the client remain in the same product through the different life cycles.

Pension as part of a wider portfolio

The pension freedoms did not just bring in the ability to access pension savings en masse, it also introduced some beneficial legislation on death, which, in one move, made the pension the crown jewel of any product portfolio due to its beneficial tax treatment (as mentioned earlier in this document).

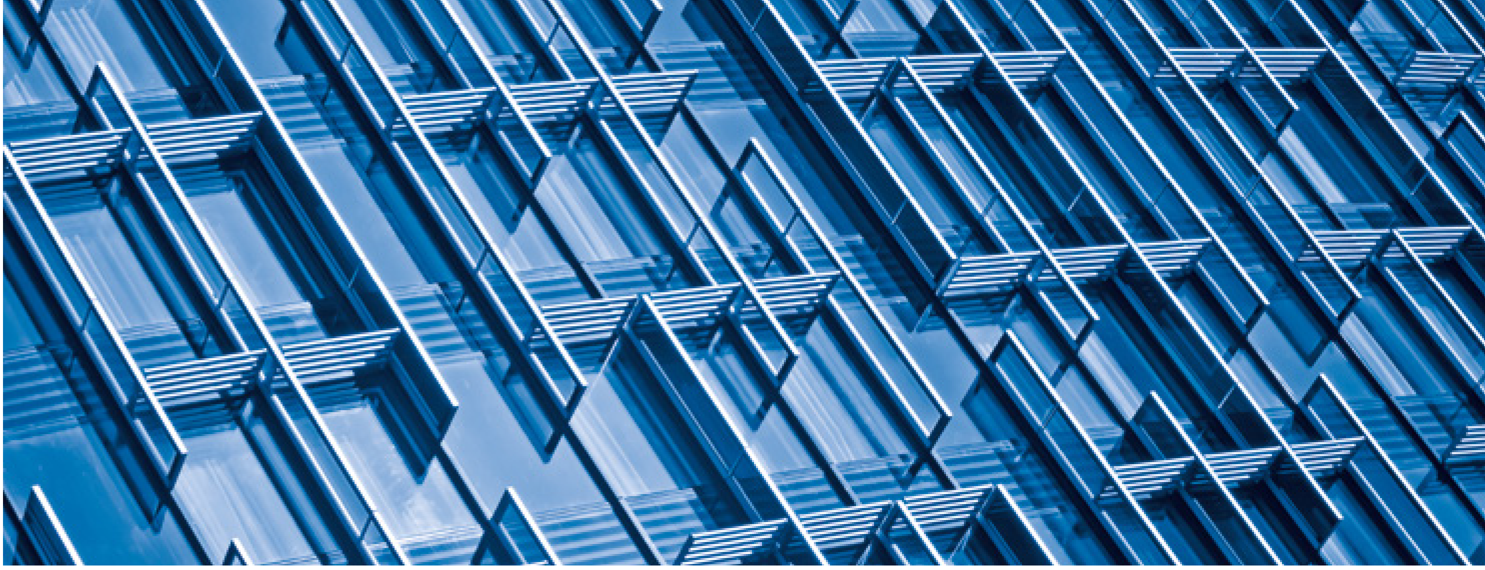
This has meant that advisers have needed to apply a more joined up, holistic approach to the retirement planning for their clients.

Advisers should be considering the other products and investments their client holds and how these could be used to meet financial goals, so as to preserve the tax and inheritance benefits of the pension product wrappers and take advantage of the benefits that other products can offer.

Enhanced annuities

Some annuities can be underwritten based on specific conditions or lifestyles known to shorten life expectancy, making them more attractive to those clients for whom this may be of benefit. Clients could be missing out on higher annuity rates and therefore increased income payments, based on their perceived lack of knowledge of their availability.

The FCA's TR16/7 Thematic Review on annuities from back in October 2016, found that between 39% and 48% of consumers buying a standard annuity could have benefited from an enhanced annuity.



Following on from this, PS19/1 Retirement Outcomes Review, released by the FCA in January 2019, confirmed that providers will be obligated to ask questions of proposed annuitant clients to ascertain if they qualify for enhanced annuities. Therefore advisers should be aware of the following possible lifestyle/health factors that could lead to this qualification and which their clients may be asked about or advisers may have to review on their behalf:

- Smoking
- Health issues
- Lifestyle
- Occupation
- Postcode

It is critically important to shop around for the best annuity return. The Money and Pensions Service (formerly MAS) has a free annuity calculator on their website, which is an excellent way to gain free illustrations. It was updated in 2019 to enable you to carry out enhanced assessments.

As a reminder, these were the learning objectives outlined at the start of the document that have been covered in this first part.

moneyadviceservice.org.uk/en/tools/annuities

1	Understand the retirement landscape and secure good knowledge of the range of solutions which exist (drawdown and annuity based).
2	Understand the key aspects of regulation surrounding a retirement strategy and the more recent changes and updates.
3	Understand and appreciate the various risks (not just market and investment) that exist in running a retirement income strategy.
4	Understand the different retirement choices and retirement income options and how they meet differing customer needs.

Test yourself for CPD purposes

To assess your knowledge following completion of this publication, why not work your way through the following questions?

You can find all the answers within the text.

1	What percentage of adviser respondents to Defaqto's 2018 pension satisfaction survey confirmed they recommend flexi-access drawdown to their clients?
2	According to Defaqto's data, how many pension annuities were there available to new business as at 12 February 2019?
3	Name five types of risk an adviser should consider when giving retirement advice.
4	Name four of the five factors listed in this document that can impact a client's eligibility for an enhanced annuity.
5	According to The Pensions Regulator, what number of transfers out of defined benefit schemes took place in 2017/18?

CII/PFS and CISI accredit this document for up to **30 minutes** of structured continuing professional development (CPD).

Name	
Signature	
Date	
CPD time recorded	

Answers

1) 85% 2) Six 3) Market evolution, Longevity, Inflation, Sequence, Investment, Commitment, Diversification, Insurer credit and counterparty, Political, Timing, Interest rate, Health, FSCS 4) Smoking, Health issues, Lifestyle, Occupation, Postcode 5) 72,700 although it is thought that there could be more as not all schemes confirm the number of transfers out

Part 2: The Retirement Account from Canada Life

In the second part of this document, we will conduct a full review of The Retirement Account from Canada Life. This review will include the features, functionality and investments of the product, detailing how they support appropriate client needs during the accumulation, consolidation and decumulation phases.

Canada Life and Canada Life Investments have operated in the UK since 1903 as part of the Great-West Lifeco, one of the largest insurance companies in the world. It has over £942bn of assets under administration as of 30 June 2019, across 30 million customers worldwide.

AKG rates Canada Life Limited B+ under their ‘Provider’ category, which means it is considered to be very strong.

Canada Life Investments manages a host of fund strategies such as fixed income, property, global equities.

The Retirement Account has its origins in the product of the same name offered by Retirement Advantage, a provider that Canada Life acquired at the start of 2018. The acquisition is part of Canada Life’s declared ambition to become one of the leaders in the UK retirement market.

Originally, The Retirement Account’s unique selling point was the ability to blend Pension Drawdown with an annuity within a PPP wrapper. As the annuity was written under flexi-access drawdown rules, the client could choose to defer and reinvest the income paid out. It also offered beneficiaries the ability to control when death benefits are paid, to aid tax planning.

The new product will continue to offer the ability to combine guaranteed income with flexible, drawdown income but now offers a far wider investment proposition and also extends to the accumulation of benefits as well as the retirement stage.

This wider investment proposition is split into three different ranges, allowing advisers to overlay their existing CIPs and/or CRPs to make use of the varying solutions for each client segment.

The plan may be of particular interest to clients wishing to consolidate funds as part of a pension transfer, given that there is a minimum £20,000 investment to begin making regular contributions. It can also accept clients looking to make regular or single contributions to accumulate pension savings, or those already taking drawdown

It may also be of particular interest to those clients looking for a pension with all the benefits of a SIPP that has a fully integrated and broad investment range. As a well as this, the plan's features include the flexibility of combining guaranteed income with a more flexible drawdown income that can be deferred or reinvested within the SIPP wrapper.

Using The Retirement Account

The Retirement Account is aimed at clients between the ages of 18 and 75 allowing regular and one-off contributions for accumulation. It can also accept transfers for clients looking to transfer out of existing products to take advantage of the new rules.

The product will accept transfers of uncrystallised or crystallised benefits.

The Retirement Account provides a full range of income options, whether the client requires flexibility, guarantees or a combination of the two.

The solution allows clients to consolidate funds, make regular or single contributions, accumulate pension savings and access drawdown, but also includes a guaranteed income within one wrapper.

Minimum net £20,000 initial investment	
Minimum transfer value	No minimum
Minimum regular contributions	£250 monthly; £750 quarterly; £3,000 annually
Minimum single contribution	£500
Minimum guaranteed annuity purchase price	£10,000 (within overall £20,000 maximum)
Minimum ad hoc crystallisation	£1,000
Minimum automated crystallisation	No minimum
Minimum pensions drawdown withdrawal	£100

When looking at the minimum initial investment of £20,000 it would prompt one to consider that it is likely a client would already have accumulated some pensions savings, and the adviser is suggesting a consolidation into a new plan.

They could be mass affluent clients who are looking to:

- consolidate their plans into a single contract, to continue to grow savings, before looking for maximum flexibility before retiring
- build a flexible retirement strategy, which involves phasing in retirement benefits and for which control over tax is essential.

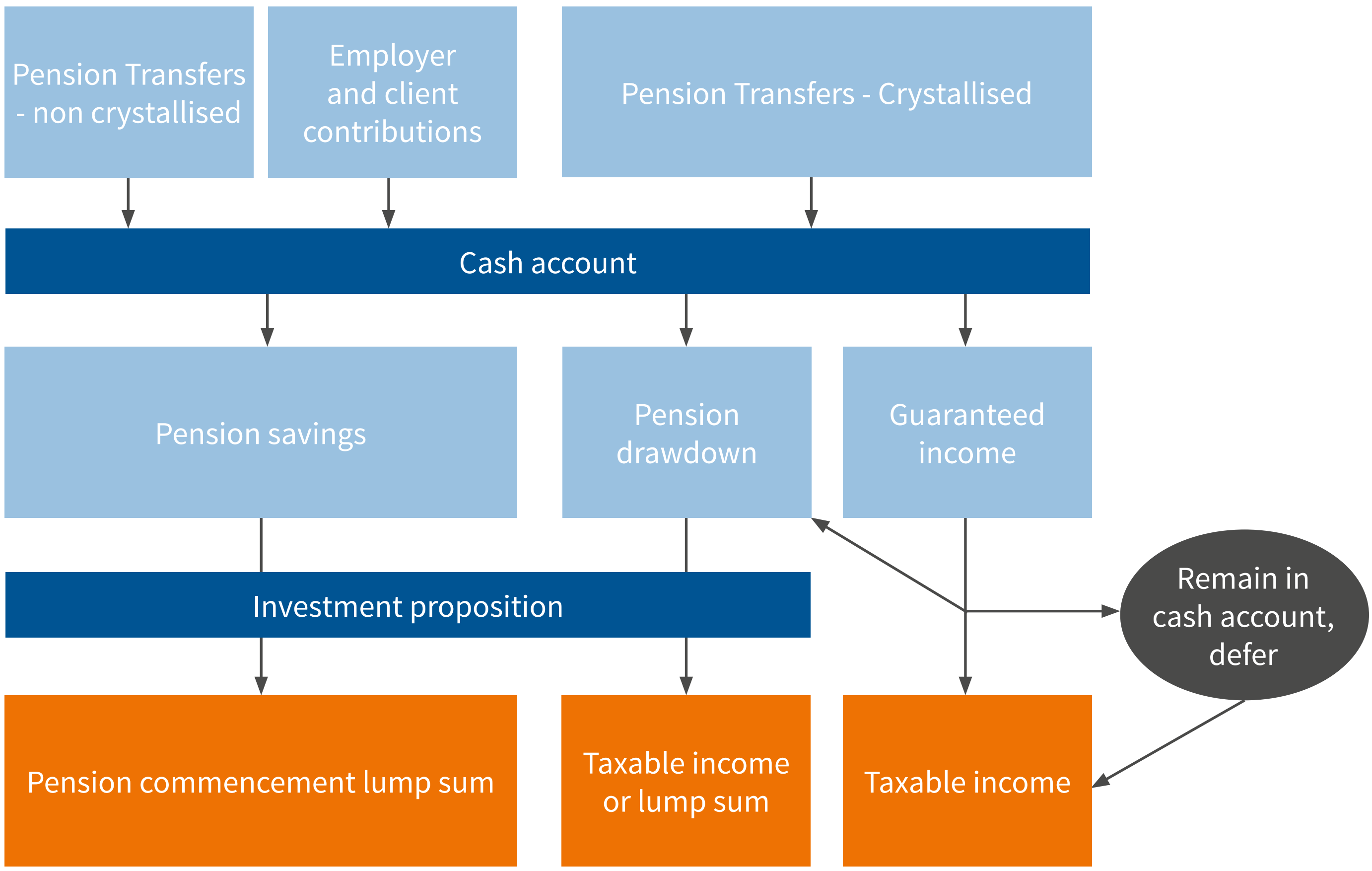
It has three different investment ranges offering solutions depending on the needs of the individual client. These ranges are called Core, Governed and Extended; each includes different strategies, together with income and growth options. Further details are provided later in this document.

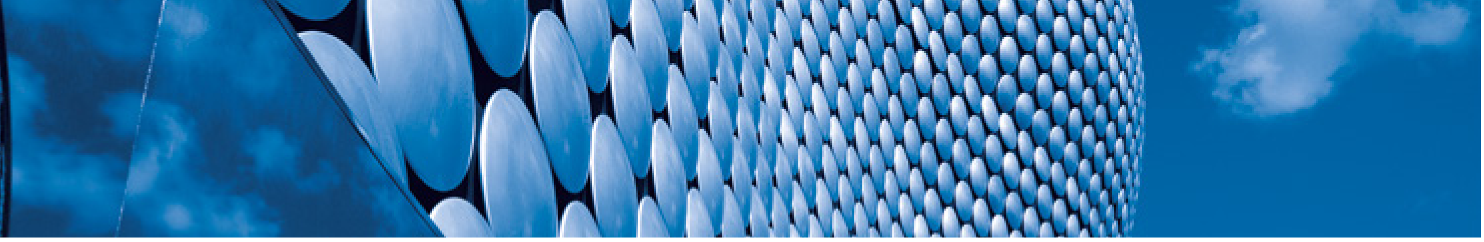
The product can support the creation of the adviser's CIP when in accumulation and then the CRP (if different) in decumulation.

It therefore gives the security of guaranteed income to cover any core expenses. It then allows the adviser to utilise a drawdown strategy for the aspirational and nice to have income. It also has tax advantages as a result of the combined drawdown and guaranteed income elements, which we discuss under 'Income solutions' next in this document.

A cash account is used for all transactions in and out of the product, including contributions in, transfers in and out, and payments out such as drawdowns or PCLS. Upon death of the client, any Pension Savings and Pension Drawdown funds are switched into the cash account and any dependent guaranteed income or remaining guaranteed period instalments are re-directed to the cash account, until Canada Life receive new instructions on when and where to invest and or how much to pay as income.

The options for the beneficiary will be to receive these as either a lump sum or as drawdown income. Any joint life guarantee on the secure income will be set up as beneficiary drawdown and paid in this manner.





Income solutions

The Retirement Account offers a full range of solutions to clients at retirement, meaning the opportunities made available by pension freedoms can be fully delivered.

Income funds	Pension drawdown income	Guaranteed annuity income	Tax-free income

A Tax free lump sum can be taken alongside phased drawdown income and guaranteed annuity income.

Income funds

Amongst other income funds, there are two that have been designed specifically to generate income, which can be taken in retirement, and further details are included under the Core Range section later in this document.

- The **Canlife Diversified Monthly Income Fund** is an insured fund invested in the LF Canlife Diversified Monthly Income Fund.
- The **Canlife UK Property Income Fund** is an insured fund invested in the LF Canlife UK Property ACS.

Pension drawdown income

The plan allows the client to access benefits via a full or partial crystallisations:

- A full crystallisation means the client receives all of their tax-fee cash at once.
- Partial crystallisations (termed phased drawdown) can be ad-hoc (subject to a minimum £1,000 crystallisation) to provide an exact amount of tax free cash and/or an additional taxable lump sum to meet a client's needs at that time, or they can automated to provide for a regular tax-free income or mix of tax-free and taxable income (with no minimum amount). Only 40% of personal pensions (PPP) or SIPP's currently allow phased drawdown, according to Defaqto Engage.

In either case they can also choose to take a taxable income and/or ad hoc withdrawals (subject to a minimum of £100) directly from any other crystallised funds via flexi access drawdown (termed Pension Drawdown by Canada Life).

As a result the Retirement Account allows for the client to take a regular income which can be tax free, taxable or a mixture of the two on a monthly, quarterly or annual basis. This can be extremely useful for tax planning and also provides the opportunity for a greater amount of tax-free cash compared to taking all of it at once via a full crystallisation dependent on the performance of the underlying investments.

Guaranteed Income Option

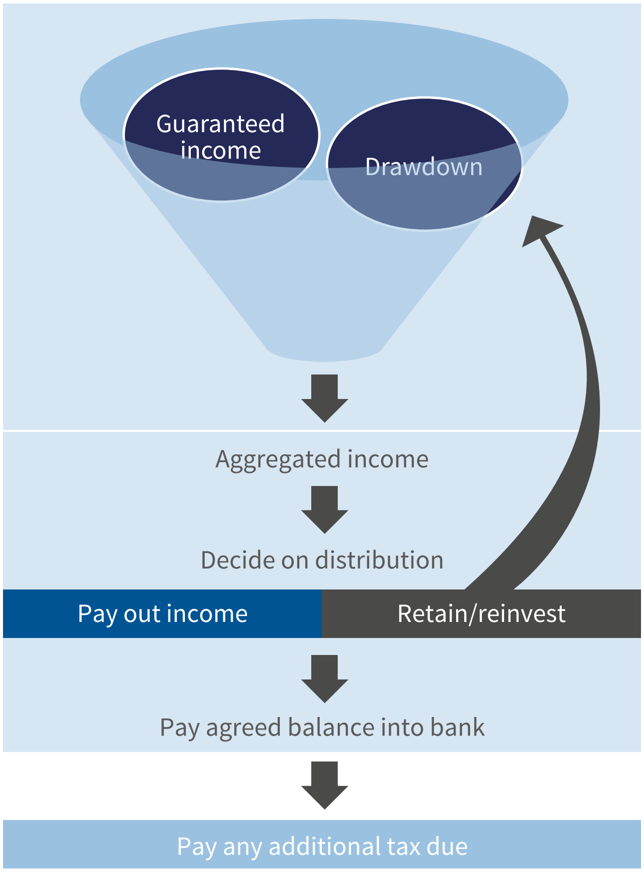
The Retirement Account allows a client to take a mix of both a guaranteed income and flexi-access drawdown, using what Defaqto describe as a 'hybrid' solution.

An annuity is held as a trustee investment within The Retirement Account, which means that the income sources and the income they produce are both held and benefit from the tax-efficient flexi-access drawdown pension environment.

Once it has been decided what level of guaranteed income is needed, this can be set up. This option offers all of the normal attributes you would associate with an annuity:

- Guaranteed income for life that provides a level of certainty alongside the flexibility of drawdown
- Competitive annuity rates tailored to lifestyle, medical history and postcode
- A choice of death benefit options
- Level or escalation options

The income paid by the annuity is payable directly into The Retirement Account cash account with the option to pay out to the client's bank account through drawdown. Alternatively, if circumstances change, as the annuity is written under drawdown rather than annuity rules, the client can retain the sum in cash or reinvest it in the pension for growth. In doing so, there is no income tax payable as the income remains within the pension wrapper and has not been received as income by the client.

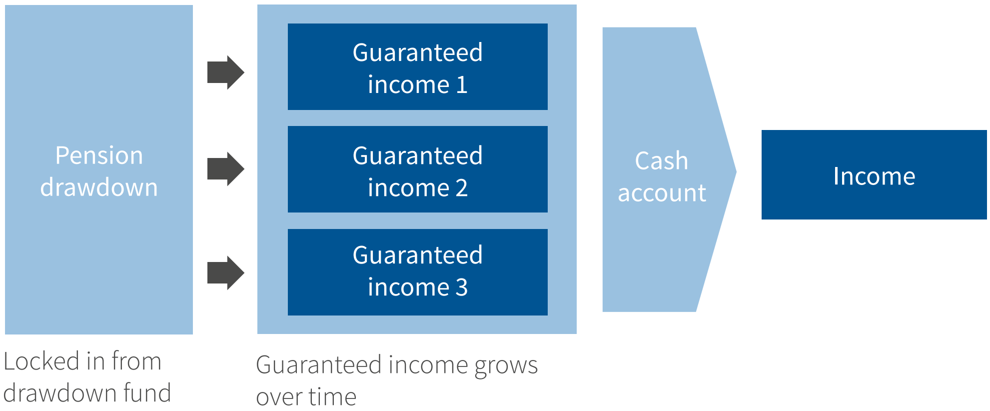


This diagram is representative of the process, however note there may be some slight differences when tax is paid before receipt by client.

The benefits of this are:

- Income control over the timing of any regular or one-off payments from the pension means you only pay income tax on money you need, above your personal allowance
- The tax liability can be deferred until the annuity income is taken out of the cash account, because income tax is only paid when income leaves the wrapper
- One payment date, one annual renewal statement and one P60

If on review, the client requires an increased level of guaranteed income then this can be facilitated by the purchase of a second guaranteed income in the same way as the first. The client can also purchase further subsequent annuities as required.



Each additional annuity is based on the client age, health and choice of benefits at the time of purchase. The minimum purchase price of the guaranteed income is £10,000, although this is within the wider £20,000 minimum investment amount in The Retirement Account. There is a maximum purchase price of £3,000,000 in the entire plan. For second and subsequent annuity purchases the minimum investment amount is £5,000.

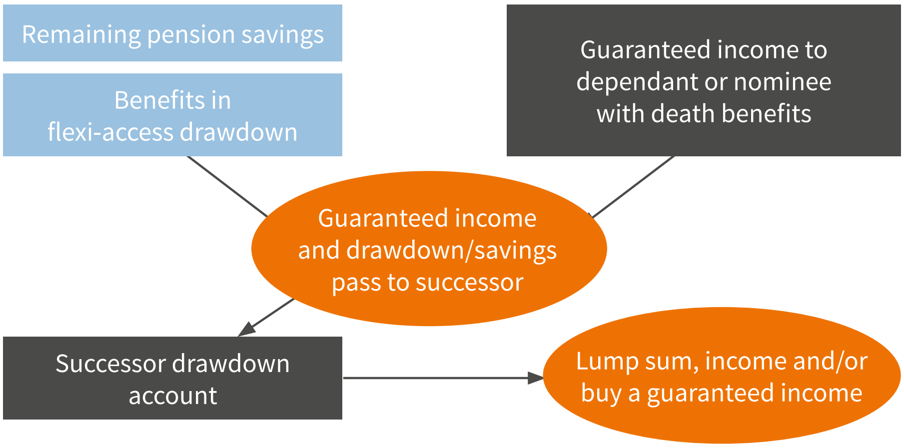
On death

The element of the plan in drawdown can be paid to a dependant, nominee or successor. The beneficiary will be set up with their own Retirement Account to receive the remaining fund as ongoing income or alternatively as a lump sum. The guaranteed income will be paid to the named dependant, if there is no named dependant on a single life policy then it may also be payable to a nominee.

The same options are available to the beneficiary when receiving ongoing income payments through their own Retirement Account, meaning he or she can receive any annuity benefits as instalments on death which provides a more tax efficient opportunity than otherwise would have been possible. This gives the beneficiary control over receiving income in a similar way to the original client.

Guaranteed income offers the following death benefit options:

- Dependant's income of 50%, 66%, 75% or 100% of annuitant's income; dependant must be aged between 35 and 85. Payable only to named dependant
- Income guarantees of up to 30 years (whole years). Payable only to named dependant if combined with dependant's income
- Guaranteed income instalments can be commuted for a discounted lump sum
- Money back guarantee of up to 100% of purchase price, less gross annuity income taken, for single life or joint life second death basis. Payable to named dependant or other beneficiary.
- Multiple beneficiaries/successors can be chosen, each of which can make their own choices and nominees can be any age (eg under 18)



Investment options

In line with the different types of client likely to use this product, Canada Life has created a wide investment proposition with three different fund ranges to suit different consumer needs.

The investment proposition was built following extensive feedback and research with financial advisers. The investment proposition seeks to provide financial advisers with:

- A broad investment choice to suit different investment requirements, advice models and financial objectives, in a format that is easy to use and understand
- In-built flexibility that caters for different client types, regardless of their investment needs both now and in the future
- A wide fund choice that allows advisers to build centralised investment propositions, retirement propositions and model portfolios (being added at a later stage)
- A competitive, simple charging structure, and tools to analyse funds
- A range of in-house multi-asset solutions, designed as a one-stop range of easy-to-use funds
- An investment option with strong governance at its centre, delivered in collaboration with independent experts

It is possible for solutions for the different ranges to be used alongside each other, meaning advisers can use elements of each range if there are clients for whom this may be appropriate. The same product charges apply regardless of the fund range(s) chosen.

The Core Range draws on the expertise of Canada Life Investments to offer a simple, low-cost, set of insured multi-asset funds utilising both passive and active management styles that can align to a range of risk profiles.

The Governed Range is made up of a broad selection of single and multi-asset insured funds from established asset managers, ranging from specialist boutiques to global investment houses, all selected and governed in conjunction with Square Mile Investment Consulting and Research.

The Extended Range has been created to offer more choice and exposure across a broad range of investment sectors and markets through direct access to a wider range of funds.

It is possible for solutions from the different ranges to be used alongside each other, meaning advisers can use elements of each range if there are clients for whom this may be appropriate.

Automatic rebalancing at customer level can be set up by the adviser on a monthly, quarterly or annual basis. Ad hoc rebalancing is also available.

Fund range	Investment proposition
Core	• A range of low cost, insured, ready made, multi-asset diversified funds together with some single strategy options • Risk targeted range and Risk Managed options • Active and Passive funds available • Protected fund offering a degree of security from the volatility of the markets • Income generating fund options • Investment expertise through Canada Life Investments with funds assessed using the Canada Life governance framework
Governed	• Around 100 'best in class' actively managed single and multi-asset funds • A range of single strategy passive funds • Governance carried out by Canada Life in conjunction with Square Mile Investment Consulting & Research • Researched funds from a wide range of established investment firms
Extended	• Platform style fund range which will target circa 2,000 funds • Extensive exposure to investment sectors and markets through direct investment in UK and Dublin domiciled OEICS and Unit Trusts • Discretionary fund manager (DFM) managed portfolios will be added at a later stage • Limited ongoing governance and could be used in conjunction with adviser using a DFM

The Core Range

Canada Life Investments manages the Core Range in-house and has a range of multi-asset funds split into three offerings:

Risk targeted funds	A risk targeted range that aims to continually prescribe to a set level of risk. An asset allocation from Distribution Technology's Dynamic Planner (DP) is strictly followed and is implemented using mainly in-house Canada Life Investments' funds or, should the client choose the passive option, index tracking funds from Vanguard
Risk managed funds	A selection of funds broadly spanning the risk spectrum but with a flexible asset allocation provided by Canada Life Investments, mainly using Canada Life's in-house investment managers or, should the client choose the passive option, index tracking funds from Vanguard
Income solutions	A choice between a Monthly Diversified Income fund, a UK Property Income fund (distributed quarterly)

Table 3: Risk targeted and managed asset allocation

	Risk targeted	Risk managed
Active	Strict asset allocation: Strategic asset allocation (SAA) and mainly Canada Life Investments' funds	Flexible asset allocation: SAA, active tactical asset allocation (TAA) and mainly Canada Life Investments' funds
Passive	Strict asset allocation: SAA and mainly passive funds implementation	Flexible asset allocation: SAA, active TAA and using mainly index-tracking funds from Vanguard

Canada Life Investments manages c£38bn (as of June 2019) in fixed income, equities, UK Property and multi-asset funds with roughly 55 investment personnel based in London.

Craig Rippe (Head of Multi-Asset) and David Marchant (Chief Investment Officer) co-manage each of the funds within the Core Range.

Table 4: Senior investment personnel

Fund manager	Biography
Craig Rippe **Head of Multi-Asset**	Craig joined Canada Life Investments in March 2004. He became Head of UK Equities in March 2010 and was most recently appointed Head of Multi-Asset in May 2018. He previously managed income funds at Govett Investment Management Limited and prior to that worked at Deloitte Touche. Craig has a BSc in Mathematics from Warwick University. He is a Chartered Accountant and a CFA charterholder.
David Marchant **Chief Investment Officer**	David took over as Chief Investment Officer, Canada Life Limited and Managing Director, Canada Life Asset Management Limited in July 2013. He oversees all investment functions including fixed income, equities, real estate, commercial mortgages as well as marketing and distribution.

Source: Canada Life Investments

Risk targeted fund investment process

The main focus of the risk targeted range is on client risk and suitability. There are ten portfolios available in The Retirement Account, five active and five passive. The funds align to Dynamic Planner's asset allocation guidelines for Risk Profiles 3 to 7.

To achieve this, Canada Life has taken long-term SAAs from DT and aims to keep the fund allocations as close to this as possible. While there may be some deviations due to market volatility, Canada Life will rebalance these funds back to the long-term asset allocations as soon as practical, usually daily. There are no shorter-term asset allocations by Canada Life Investments, or in other words, there is no TAA for this range.

The SAA is normally updated annually by DT, and Canada Life Investments also reviews the funds on an ongoing basis to ensure the asset allocation remains in line with DT.

For the active version of this range, while the preference is given to Canada Life in-house funds, Craig Rippe and David Marchant have the flexibility to use external funds should they believe the in-house fund options are not suitable.

Similarly, for the passive option, if the fund managers don't view there to be a suitable passive fund for an asset allocation, they will allocate to an active fund instead. High yield bonds and UK Commercial Property were mentioned as being examples.

The funds' long-term SAA and Defaqto Risk Ratings can be seen in Table 5. In addition, Defaqto has given the Canlife Portfolios a Risk Targeted Diamond Rating 5:

Table 5: Canlife risk levels

	Canlife Portfolio 3	Canlife Portfolio 4	Canlife Portfolio 5	Canlife Portfolio 6	Canlife Portfolio 7
Defaqto Risk Rating	RISK RATING 3 defaqto	RISK RATING 4 defaqto	RISK RATING 5 defaqto	RISK RATING 6 defaqto	RISK RATING 7 defaqto
UK Cash	15%	10%	5%	4%	
UK Index Linked Bonds	7%	7%	4%		
UK Government Bonds	12%	6%	3%		
UK Corporate Bonds	21%	21%	19%	12%	
Global (ex-UK) Fixed Income	13%	7%	4%	6%	7%
Absolute Return					
Commodities					
Global Property	5%	5%	5%	5%	5%
Private Equity					
UK Equity	14%	18%	23%	26%	35%
Europe (ex-UK) Equity		5%	5%	6%	6%
North American Equity	8%	12%	16%	17%	15%
Developed Pacific (ex-Japan) Equity		4%	5%	8%	12%
Japan Equity	5%	5%	6%	7%	8%
Emerging Markets Equity			5%	9%	12%
Other					
Total	100%	100%	100%	100%	100%

Source: Defaqto, July 2019

Risk managed fund investment process

The risk managed funds are allowed greater asset allocation flexibility so that Canada Life Investments can aim to generate additional returns using TAA. Six risk-managed funds are available in The Retirement Account, three active and three passive.

This range of six funds sits in the ABI sectors of Mixed Investment 0-35% Shares, Mixed Investment 20-60% Shares and Mixed Investment 40-80% Shares, Asset allocation parameters and targets are set internally and adhere to these sector limits. We summarise the respective sector definitions and applicable limits in Table 6 below:

Table 6: Risk managed investment sectors

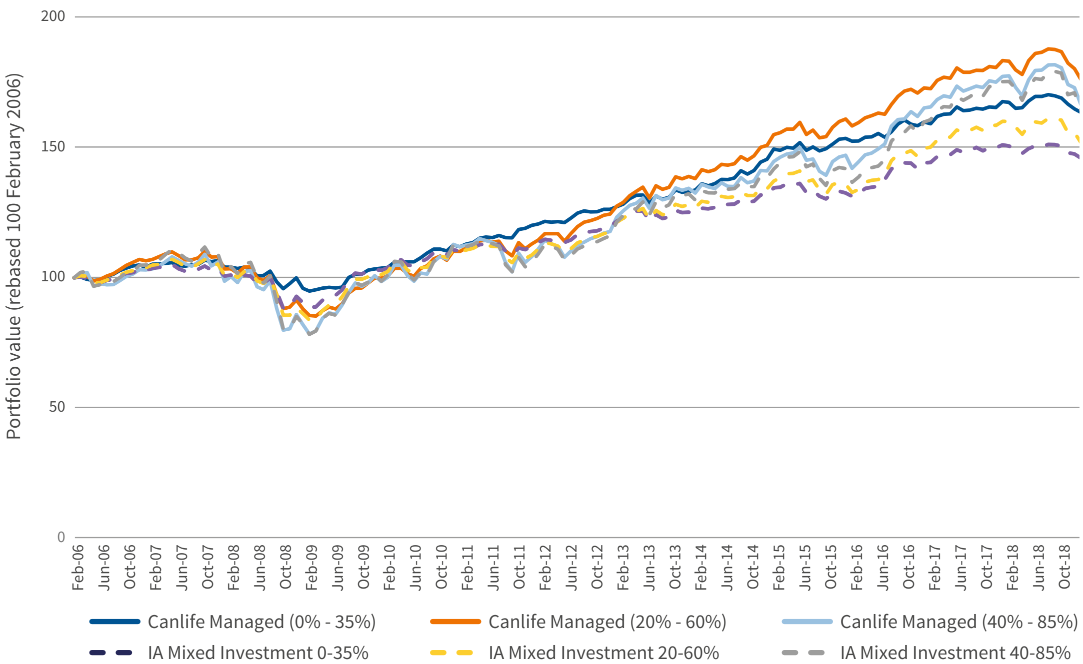
	Canlife Managed (0-35% Shares) Fund	Canlife Managed (20-60% Shares) Fund	Canlife Managed (40-85% Shares) Fund
ABI sector	Mixed Investment 0-35% Shares	Mixed Investment 20-60% Shares	Mixed Investment 40-85% Shares
Equity limits	0% – 35%	20% – 60%	40% – 85%
Fixed income and cash limits	45% and above	30% and above	No minimum
Overseas exposures	Minimum 80% in USD, EUR, or GBP; and minimum 40% GBP	Minimum 60% in USD, EUR, or GBP; and minimum 30% GBP	Minimum 50% in USD, EUR, or GBP; and minimum 25% GBP

Source: Investment Association, March 2019

Similar to the risk targeted active range, the three funds which sit in the risk managed active range will mainly use in-house Canada Life Investments' funds, but have flexibility to allocate to external third-party funds should the fund managers see fit. Conversely, the three passive risk managed funds are allocated to Vanguard passive funds, unless the fund managers don't view there to be a suitable passive fund for an asset allocation. In this case they can allocate to an active fund instead.

While some of the Canlife Managed funds are new in this format, Canada Life has run a similar strategy for active pension funds since 2002. The long-term performance can be seen in Chart 3 below:

Chart 3: Canlife managed funds performance



Source: Managed fund performance from Canada Life, March 2019. IA Mixed Investment performance from Morningstar. Calculation by Defaqto.

Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund and does not include any fund charges. Fund charges are taken by canceling investor units. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Your client could get back less than they have paid in.

Protected fund

Canada Life also offers a fund for use by clients requiring capital protection and/or income. This may be of particular use to clients who are close to the end of their accumulation phase, or have entered retirement.

Canlife Index Managed (80% Protected)

This fund combines exposure to growth assets, such as equities, alongside a cash buffer and structured product that are designed to protect against large falls in a client's investment.

The fund achieves this by investing directly in an open-ended fund (open-ended investment company or OEIC) provided by Morgan Stanley. The fund combines three investment strategies:

1	A long-term SAA that sets the overall risk of the fund and is implemented using index funds from Vanguard and BlackRock
2	Shifting exposure out of risk asset and into a cash buffer should fund volatility exceed 8%
3	Using a structured product, also provided by Morgan Stanley, which will aim to protect 80% of the current fund's net asset value (NAV).

Permanent loss of capital is a serious risk for clients in decumulation due to sequencing risk. Using a fund with in-built protection to protect against losses is one way to mitigate this, as is investing in lower risk investments.

An adviser should consider how this fund compares in terms of costs, liquidity, transparency and risk vs other decumulation fund options that do not make use of derivatives, as some clients prefer not to use options.

Income funds

Canada Life also offers a Diversified Monthly Income fund and UK Property Income fund within their Retirement Account. Both these funds will target a regular income for investors via the natural yield of the underlying investments. That is, investors will receive their income via distributions without selling units.

The Canlife Diversified Monthly Income Fund is an insured fund invested in the LF Canlife Diversified Monthly Income Fund. The fund holds a diversified portfolio of income-generating assets, including global company shares, international government and corporate bonds, as well as property. The fund's objective is to provide an income on a monthly basis to investors through the use of dividends, interest payments and rental income from these assets with the potential for long-term capital growth. The income yield is actively distributed within the insurance wrapper itself to the Retirement Account cash account, without the need to cancel units. In order to withdraw this income from the cash account the customer needs to set up an income withdrawal amount (£) at a specified frequency. Should there be insufficient cash in the cash account to pay the required income then units will be sold to meet the shortfall.

Advisers should bear in mind the liquidity risks of underlying investments when making suitable recommendations for their clients. Funds that achieve higher income yields can be paid to do so in return for taking on additional liquidity risk. This particularly applies to direct property investments, where it can take time for a fund to sell the underlying holdings in the event of investor panic or a market event. For example, after the UK EU referendum result in 2016, several direct UK property funds enforced redemption holds. It may be that such funds are suitable for clients if they are willing to be patient or won't need quick access to the underlying investment capital.

The Canife UK Property Fund invests in the LF Canlife UK Property ACS which holds direct property investments.

The level of yield targeted by these funds will be confirmed by Canada Life once the funds have been established.

The Governed Range

The Governed Range is designed to give advisers greater flexibility and responsibility in the funds they recommend for their clients.

Square Mile Investment Consulting & Research was commissioned by Canada Life to create a shortlist of around 100 single asset and multi-asset funds that they recommend across a variety of sectors. This range is made up of insured mirror funds, which invest in underlying funds recommended by Square Mile. Canada Life states that the funds chosen within the range have not paid any fees to Square Mile to feature within their shortlist. Funds in the Governed Range are approved by the Canada Life Investment Working Group and continue to be monitored closely by both Square Mile and Canada Life. The fund range will be formally reviewed in a joint meeting, held quarterly.

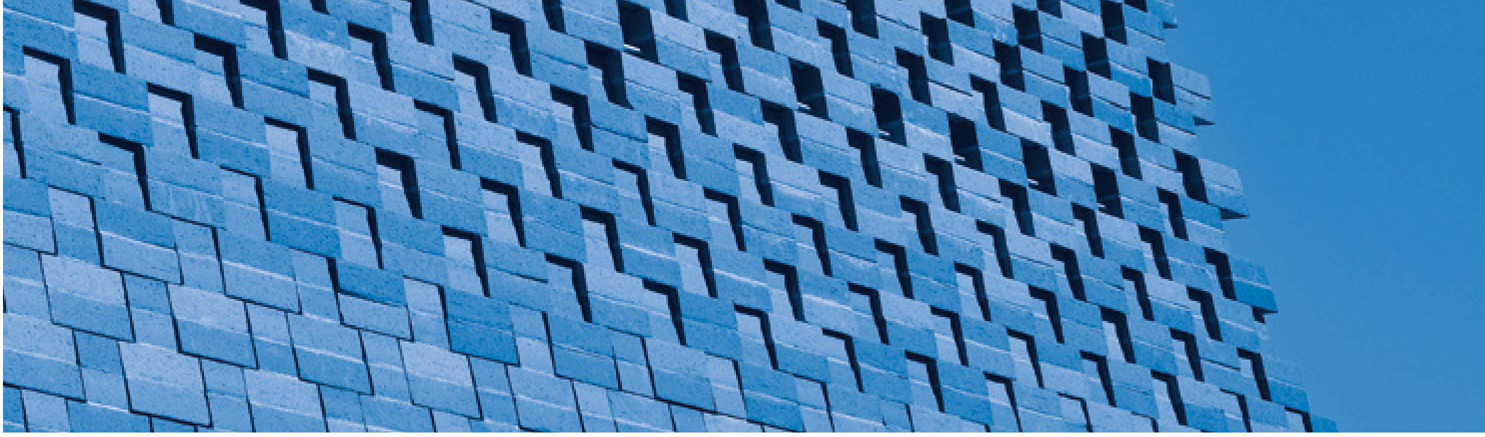
Specifically, Canada Life asked Square Mile to create the shortlist according to the following main criteria:

- The range should cover most of the major sectors and incorporate both active and passive choices
- Multi-asset options should complement those already available in the Core Range
- Funds should be selected from Square Mile's Academy of Funds, which are sourced using their investment research
- Funds should have clearly articulated objectives, from proven investment specialists
- Fund outcomes should include capital accumulation, income, capital preservation and inflation protection

Square Mile assesses funds across a range of qualitative criteria and aims to review any managers on their shortlist each quarter. These criteria are:

- People and their environment
- Investment philosophy
- Investment process
- The fund's objectives, achievability and suitability
- Portfolio construction and risk management
- Performance assessment
- Cost

Should a fund be removed by Square Mile, the Investment Working Group will recommend whether to 'soft close' the Canlife insured mirror fund to new investors; move existing clients out of the fund into an appropriate alternative and then close the fund; or retain the fund outside of the Governed Range depending on the fund's circumstances. These recommendations are then referred to the Canada Life Investment Committee who make the final decision. Canada Life will communicate with advisers and customers if the rating is removed and keep them updated with any decisions they make.



The Extended Range

The Extended Range has been created to offer extensive choice and exposure across all investment sectors and markets. Funds within this range are accessed via the fund provider but within the same product. The Extended Range provides ultimate flexibility for advisers to construct their own model portfolios.

It is important to note that the Extended Range provided by Canada Life in The Retirement Account will not accept any unregulated investments, or directly hold property, quoted or unquoted shares, government gilts or structured products. The product is a life company Self-invested Personal Pension where financial protection and the business reputation of Canada Life is critical.

Canada Life undertook due diligence on the funds available within this range to ensure that only standard/non-complex funds were included. Funds within this range are accessed via the provider's OEIC or Unit Trust – the investment is not placed within a Canada Life insured fund wrapper.

The charges explained

The Retirement Account uses a tiered product charge which applies to all funds invested in the plan and is separate to the funds' own ongoing charges figures (OCF).

The charges are the same across the product regardless of the fund types selected:

Up to £25,000	0.60%
£25,001 to £75,000	0.30%
£75,001 to £150,000	0.20%
£150,001 or above	0.10%

The tiered charge is cumulative. This means each tier charge is applied to the proportion of the fund value within the range, the total of which makes the overall total annual product charge.

As an example, an investment of £250,000, regardless of the proportion in crystallised or uncrystallised funds, would have a charge of:

	Investment proportion	Charge %	Actual £
Up to £25,000	£25,000	0.60%	£150
£25,001 to £75,000	£50,000	0.30%	£150
£75,001 to £150,000	£75,000	0.20%	£150
£150,001 or above	£100,000	0.10%	£100
Cumulative total	£250,000	0.22%	£550*

*With an annual charge of £550, £45.83 would be deducted each month. The tiered charge will fluctuate based on the value of the account.

The monthly tiered charge is split proportionately between Pension Savings and Pension Drawdown.

Each fund will also apply an OCF, which should be taken into account, in addition to the above charges applied by Canada Life.

Adviser support

One of the key reasons for the increase in popularity of platforms has been the increasing use of technology by advisers using tools provided on the platforms.

These tools are designed and developed to aid an adviser's business. This in turn should benefit their client, through time savings which lead to more time spent with, and on, the client as well as ideally reducing the cost of the advice given. A good tool should also be one that improves the advice the client receives, such as allowing for a more accurate accumulation or retirement plan.

The Retirement Account from Canada Life has been developed to provide a range of online tools and services. Canada Life has enlisted the support of GBST to develop these tools, who also provide support for well-known platform providers. This means that Canada Life is able to offer a range of tools that advisers would normally expect to see from platform providers. They can be accessed at: canadalife.co.uk/adviser/support

The range of tools offered competes favourably with the range offered by adviser platforms in the market and delivering these online can reduce administration burden and cost, freeing the adviser's time to give advice.

Illustrations	Model portfolio set up and management (to be added at a later date)	Medical underwriting for guaranteed annuity	Online applications including account rebalancing
Set up drip-feed drawdown on new business	Chat/messaging service	Valuations and statements	Application tracking

The Retirement Account facilitates a range of adviser charging options.

Initial Charge	
Transfers and single contributions	• Initial adviser charge (% or £)
Ongoing Charge	
Adviser charge	• % or £ amount, payable monthly. • If % amount this is deducted proportionately from Pension Drawdown and Pension Savings funds. • If £ amount this is deducted from any PD funds in the first instance.
Regular contributions	• Charge is a % of each gross regular contribution payable at regular contribution frequency
Ad-hoc Charge	
Transfers and single contributions	• £ amount (deducted from any Pension Savings funds in the first instance)

Canada Life has a specialist technical team who can support advisers and paraplanners. They can also provide education through webinars, videos and other media. Face to face or 'over the phone' support is provided by Canada Life's sales team.

Canada Life has also committed to introducing further tools post launch, which will aid advisers and help them save their valuable time, including:

- Annual allowance calculator
- Lifetime allowance calculator
- Income withdrawal optimiser
- Tax relief calculator
- Emergency tax calculator
- Income sustainability optimiser
- Salary Sacrifice calculator

While the recommendation from the adviser should not be determined based on the support services offered to make the adviser's life easier or reduce their own costs, these services can lead to better consumer outcomes.

Conclusion

A raft of key legislation changes brought in over the last five years has meant that advisers are having to adapt their processes quickly to ensure they continue to be fully compliant.

Advisers are used to having to alter their procedures when regulation changes, but the recent changes have been so significant that it has led to some major alterations.

MiFID II and PROD has led to advisers having to work harder to justify the recommendations they make. While pension freedoms have brought with them choice and flexibility that simply did not exist four years ago, the unintended consequence has been the extra rigour that advisers must test the outcomes they recommend.

The FCA's PS19/1 Retirement Outcome Review was published in January 2019 with rules for providers amid concerns that non-advised consumers were taking unsustainable levels of pension benefits.

It is against this background that the adviser's role has become ever more important but equally more demanding. Advisers are increasingly looking at outsourcing the investment element of their planning to streamline their processes and work more efficiently or build their own in-house propositions, to keep compliance costs down. All of these can then see them spending more of their valuable time with their clients. They are turning to platforms with the technology they can offer, as well as the wider investment propositions available whether it be multi-asset funds or managed portfolios from DFMs.

The Retirement Account from Canada Life aims to offer the best of the platform world, providing tools which advisers are able to access in a single place as well as supporting advisers in building their CIPs and CRPs. It also gives those advisers who still wish to maintain a level of stock picking responsibility, the flexibility to build their own model portfolios.

The Retirement Account from Canada Life is one of very few in the market to combine both a flexible income and a guaranteed income within the same product, all from the same provider. It therefore allows clients to enjoy the best of both worlds in their retirement planning.

The initial expectation of new innovations in the retirement space following pension freedoms has proved somewhat inaccurate, and the FCA has noted it is taking some time to bear fruit.

However, where providers do launch products, then advisers should take note and ensure they understand them fully. They need to be able to satisfy themselves that they have applied a duty of care to their clients where they have researched the entire market, as well as considering the benefits of the type of structure applied by Canada Life.

Of course, advisers will feel that their value is in being able to create retirement strategies for their clients.

It is vital that any solution used by an adviser is able to support the varying needs of their clients in retirement, for those who wish to phase in taking benefits, by reducing working hours or those who want to enjoy the fruits of their labours immediately.

As well as the client's own retirement, they will likely be concerned with those they leave behind and therefore with legacy planning for when they die. The flexibility given to beneficiaries within a pension following pension freedoms is supplemented by The Retirement Account, which provides the dual functionality of taking both a guaranteed income and drawdown within the wrapper, thereby allowing greater tax-efficient planning when the time comes.

Advisers should consider The Retirement Account from Canada Life as a new product, which offers a range of flexibility to allow clients to maximise the benefits of pension freedoms. It can be used for clients looking to accumulate pension savings, consolidate their pensions or those in decumulation. It has been developed to provide advisers segmenting their client base with investment solutions and the ability to overlay existing CIP and CRP over the new range of solutions.

As well as this, it offers platform-type technology, which can be of benefit to advisers and their clients if used correctly.

Send us your feedback

Your feedback is extremely important to us and we would be grateful if, after completing this publication, you would take a few minutes to complete a short survey. Your answers will be treated in the strictest confidence and the results of this will help the development of future publications.

The survey can be accessed at:

snapsurveys.com/wh/s.asp?k=144610976149

About Defaqto

Defaqto is an independent financial information business, helping financial institutions and consumers make better informed decisions.

Our experts research, collect and continuously assess over 43,000 financial products. Our process is extremely robust and is driven by over 60 specialist analysts who have unparalleled knowledge of financial products, services and funds in the market. Our independent fund and product information helps banks, insurers and fund managers with designing and promoting their propositions.

Defaqto Ratings

Defaqto Star Ratings are the most trusted expert assessment of products in the market. Products can receive a Rating of 1 to 5, depending on the quality and comprehensiveness of the features it offers. A 1 Star Rating indicates a basic product, while a 5 Star Rating indicates one of the highest quality products in the market. Star Ratings provide consumers, advisers and brokers with an accurate benchmark so that they can see at a glance how products and policies in the market compare.

A Diamond Rating reflects the performance of a managed fund or fund family. Funds or fund families can receive a Rating of 1 to 5 based on a detailed and well-structured scoring process, allowing advisers and other intermediaries – and their clients – to see instantly where they sit in the market in terms of fund performance and competitiveness in areas such as fees, scale, access and manager longevity. A 5 Diamond Rating indicates it is one of the best quality funds available in the market.

Service Ratings provide advisers with a simple and unbiased assessment of provider service. Based on advisers' perceptions of the service they receive, providers are rated Gold, Silver, Bronze.

Risk Ratings use the projected volatility of a fund using asset allocation and historic volatility, based on observed standard deviations, to map a fund to a Defaqto Risk Profile. Risk Profile 10 indicates highest risk and Risk Profile 1 represents lowest risk.

Income Risk Ratings are unique to the market, comparing fund objectives, asset allocations, income and capital volatilities, and maximum drawdown. The Ratings are mapped to four Income Risk Profiles based on the income required and the level of risk. They are: capital preservation, low income volatility, medium income volatility, high income volatility.

Defaqto Engage and Engage Core

Defaqto Engage is our end-to-end financial planning software solution enabling advisers to manage their financial planning process all in one place.

Engage CORE

At the heart of your advice

Engage Core, the latest version of Defaqto Engage, combines risk profiling, three-way fund, platform and product research and suitability letters templates into one easy-to-use tool. Visit defaqto.com/advisers/engage to learn more.

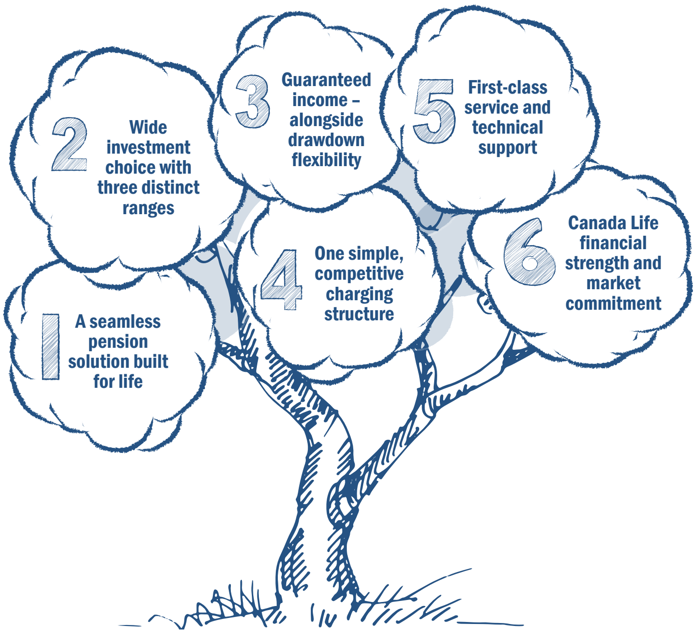
The Service Ratings and satisfaction results by category are available within Engage. Advisers can use the Service Rating and the individual category satisfaction scores (for example, new business servicing, existing business administration, online servicing) during the research process as one of a number of selection criteria. They can also be added to comparison tables.

Advisers should note that not all providers are rated; to qualify for a Service Rating, providers must receive a minimum number of responses from advisers. So, using any service results in the filtering process may exclude providers offering potentially suitable client solutions from the research output.

We really couldn't create the Service Ratings without advisers – they are different from our Star and Diamond Ratings, which are created by our experts and based on facts, not opinions.

Six good reasons to use The Retirement Account

The Retirement Account (TRA) is a seamless modern pension solution built for life, designed to meet consumer needs in the light of Pension Freedoms, which can provide certainty and flexibility in one package. There are six good reasons why TRA is an ideal pension consolidation vehicle for your clients:



1. A seamless pension solution built for life

- A simple, low cost, adaptable solution allowing you to consolidate funds, accumulate pension savings and take income or lump sums by seamlessly moving into drawdown or annuity when the time is right.
- Suitable for the majority of pension clients, at all life stages.
- Access to three distinct fund ranges, all with specific objectives and potential uses.
- Ability to phase retirement through automated drawdown.
- Access tax-free cash in one go or in stages.
- Flexible death benefits.

2. Wide investment choice with three distinct ranges

- A low-cost set of insured, multi-asset, active and index funds which draws on the expertise of Canada Life Investments - The CORE Range
- A broad selection of well-researched single and multi-asset insured funds from established asset managers selected and monitored in conjunction with Square Mile Investment Consulting & Research - The GOVERNED Range
- A comprehensive, platform-style selection of managed funds providing broad exposure across sectors and markets - The EXTENDED Range
- Select funds from anywhere in the three ranges with complete freedom, and the product fee is the same irrespective of which funds you choose (you aren't restricted to one fund within a range either).

3. Guaranteed income – alongside drawdown flexibility

- TRA is unique in enabling a true blend of guaranteed lifetime income and drawdown, coupled with a robust investment proposition.
- Guaranteed income can be retained within the SIPP wrapper to enable greater control and flexibility of taxable income and death benefits in order for wealth to be cascaded to family more effectively.

4. One simple, competitive charging structure

- TRA applies a simple tiered charging structure across all investments, and flexible adviser fees including initial, ongoing and ad-hoc options.
- The Cash Account allows you to manage any adviser charge or fees agreed with your clients.

5. First-class service and technical support

- You and your client will be supported by our UK-based servicing team, who aim to provide a first-class service.
- Our expert technical services team will be on hand if you need them, and you'll receive personal face-to-face or telephone account management.
- Access to a comprehensive Fund Research Centre with daily unit prices, performance information, fund fact sheets and tools that allow you to quickly view funds, compare funds and do in-depth analysis.
- An online dashboard that allows you to create quotes, apply online, auto-rebalance funds and more.

6. Canada Life financial strength and market commitment

- Consolidate with confidence – TRA is designed for life and we'll be with you and your client on every step of the journey.
- Canada Life has strong credit ratings from the major rating agencies, and our UK heritage dates back to 1903.
- Be assured that it is our intention to adapt and enhance TRA to suit future needs, legislation and regulation where possible.

Contact us

To find out more call us on **0800 912 9945** or email **sales.ra@canada-life.co.uk**

Canada Life

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Please contact your Defaqto Account Manager
or call us on 0808 1000 804

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