defaqto

A new retirement landscape and the role of guaranteed income

November 2023 Edition

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Personal Finance Society
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CISI Chartered Institute for Securities & Investment ENDORSED CPD CONTINUING PROFESSIONAL DEVELOPMENT

Sponsored by

Standard Life
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Contents

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The main acronyms used in this document are:

CPD	Continuous professional development	**ONS**	Office for National Statistics
DB	Defined benefit	**PPF**	Pension protection fund
DC	Defined contribution	**TIP**	Trustee Investment Plan
DWP	Department for Work and Pensions	**TPR**	The Pensions Regulator
FAD	Flexi access drawdown	**UFPLS**	Uncrystallised funds pension lump sum
FCA	Financial Conduct Authority		

Learning objectives

Reading this document will enable you to:

1. Understand and describe the current retirement income advice marketplace
2. Understand and state the key regulatory, economic and societal factors impacting advice today
3. Understand the retirement income advice solutions available and how they interact/ compare to each other
4. Know the key risks to be considered in the advice process.

Introduction

This publication is designed for professional financial advisers and paraplanners who are providing advice on using pension savings to provide an income in retirement.

Standard Life has launched its pension annuity, which appears to be serendipitously timed as we have economic, political and regulatory pressures all driving advisers to seek a more secure, inflation-proof income for their clients.

This is especially true for clients already in drawdown, who have experienced a stock market that has broadly been tracking sideways for some years with considerable volatility along the way. Many will be coming to their next review uncomfortable with their experience and may now be faced with a stagnant or decreasing income in a high inflationary environment.

We therefore felt it prudent to remind advisers and paraplanners of the regulatory expectations and industry best practices when providing income in retirement advice. This is all designed to help improve retirees' experiences and outcomes.

This publication is split into two sections.

Section A

In this section we look at the overall approach to evidence-based advice and how retirement income solutions can be combined to meet your clients' evolving needs and objectives.

Driven by the FCA's thematic review of retirement income advice, we highlight the need to evidence the suitability of the income being recommended, both in value and source.

> This section is accredited for **1 hour of structured continuous professional development (CPD)**.

Section B

Here we put the spotlight on the new Standard Life retirement income options and their support for advisers, both of which will continue to grow throughout 2023 and beyond.

We will also take a deep dive into the new Standard Life Pension Annuity, an open-market proposition available for advisers to recommend right now.

Section A

Standard Life team

Within this independent guide, Defaqto invited Standard Life, as a recognised manufacturer of retirement income solutions, to provide their insights into the various themes covered. Standard Life contributions are from:

Claire Altman
Managing Director,
Individual Retirement

Peter Cowell
Head of Annuities

Jon Scannell
Head of Partnership
Solutions

Income in retirement overview

Advising on income in retirement is not a straight-forward task, with a seemingly endless number of options from age 55 (rising to 57 from 2028).

In reality, there are only five headline options to consider, which are shown in Table 1.

Table 1: Five options to consider when approaching retirement

Option	Summary	Access the money at anytime	Provides a guaranteed income for life	Benefits from future investment	Creates a lump sum on death
Do nothing	Keep the pension savings where they are and continue to benefit from any tax-efficient capital growth achieved and/or losses	Yes	No	Yes	Possibly
Cashing out	Withdraw the entire balance in one go, 25% tax free and 75% taxable. This can create a sizeable tax liability	Yes	No	No	No
Buy an annuity	Secure a guaranteed income for either a fixed term or lifetime. Often bought covering a single life but can cover a couple. Most can benefit from an enhanced annuity	No	Yes	No	Possibly
Withdraw lump sums (UFPLS)	Withdraw the balance in ad hoc lump sums, 25% tax free and 75% taxable. This option can reduce or even avoid the tax bill created by cashing out in one go	Yes	No	Yes	Possibly
Drawdown (FAD)	Invest the wealth to produce a mixture of capital growth and income from which a regular lump sum can be withdrawn (ie monthly)	Yes	No	Yes	Possibly

Source: Defaqto September 2023

For many retirees receiving an income in retirement, it is likely they will experience more than one of these options as their needs and objectives evolve over their lifetime.

Income in retirement overview

We have written this guide to follow the thought process undertaken by advisers and paraplanners who are giving retirement income advice. The steps we follow are:

Step 1	Understand and describe the current income advice marketplace
Step 2	Understand and state the key regulatory, economic and societal factors impacting advice today
Step 3	Understand the income advice solutions available and how they interact/compare to each other
Step 4	Know the key risks to be considered in the advice process
Step 5	Suitability advice considerations

Step 1

Ascertain and categorise the (potential) sources of income available

Income in retirement marketplace

Many arrive at the door of retirement with a multitude of savings plans. Before you can provide suitable advice, it is important to understand your client's existing savings and options.

We suggest this because each category requires different considerations and advice.

You may find it useful to list your client's savings under the following categories:

- Defined benefits (DB)
- Defined contribution (DC) savings
- State benefits
- Scheme annuity contracts
- Other savings

Lost pensions

There is an estimated £20 billion in unclaimed pensions.

Commonly, the provider and saver have simply lost contact, usually after the saver has changed jobs or moved house.

The Pension Tracing Service® is an impartial service designed to help locate lost pensions and reunite them with their owner.

It is sensible for advisers to check if their clients have any lost pensions, as their existence could impact on the suitability of any advice given.

pensiontracingservice.com

Step 1

Ascertain and categorise the (potential) sources of income available

State pension

There are two types of state pension. The earliest individuals can receive either is decided by when they reach the state pension age.

Basic state pension	New state pension
Those who reached their state pension age before 6 April 2016	Males born on or after 6 April 1951 Females born on or after 6 April 1953
The full basic state pension is £156.20 pw	The full new state pension is £203.85 pw

NOTE: The new state pension age is set to rise to 67 between 2026 and 2028. In addition, Parliament must reconsider the rise to age 68 within two years of the next Parliament starting.

National Insurance qualifying years

The number of qualifying years we each hold on our National Insurance record affects how much state pension we receive.

For the new state pension, full entitlement is reached with 35 years of qualifying payments. Ten years or more qualifying years creates an entitlement to a proportion of the state pension. These years do not have to be continuous.

From an advice perspective, when assessing an individual's likely state pension there are three crucial facts to consider:

1. How much is the state pension likely to be?
2. From when is it payable?
3. Can it be increased and, if so, by how much, and what is the cost of doing so?

There are three ways to collect this information:

www.gov.uk/check-state-pension

Complete a BR19 form to post to DWP

Future Pension Centre 0800 731 0175

Step 1

Ascertain and categorise the (potential) sources of income available

Defined benefits (DB)

Also known as a final salary pension or a salary linked pension.

They tend to be held by people who have worked for large employers or in the public sector.

A DB pension scheme can be valued in two ways:

The income it provides

Its transfer value

DB pensions provide a guaranteed lifetime income that usually increases each year, either by a set percentage or to offset inflation.

The level of income is based on how many years the individual was a member of the scheme, the salary they were earning when they left, and the age at which the benefits become payable.

Each scheme has trustees and a sponsoring employer. They are responsible for ensuring that there is enough money to pay the pension income.

Should the scheme fail then the Pension Protection Fund (PPF) is likely to provide an important level of security and peace of mind to members.

DB schemes often have a transfer value that can be used to move the scheme from the DB environment to a defined contribution (DC) one. However, doing so involves giving up guarantees and the transfer cannot be reversed.

The FCA's guidance for consumers considering transferring their DB scheme to an alternative can be found in appendix A. This was updated in August 2023.

Advisers are also required to hold specific FCA permissions to advise on pension transfers, as well as sufficient professional indemnity insurance.

For advisers and advice firms unsure of their position, they should check with the FCA. In addition, the Personal Finance Society (PFS) published a good practice guide in September 2020 entitled, 'A practical guide to pension transfers from defined benefit to defined contribution', which is well worth a read.

The FCA and TPR believe it is in most people's best interests to keep their DB pension

Step 1

Ascertain and categorise the (potential) sources of income available

Annuity contracts

These are individual contracts between the saver and the pension provider, which is usually an insurance company.

Some older pension schemes have an annuity contract built into them. These include retirement annuity contracts (RACs), scheme annuity, scheme pension, section 226 pensions, and self-employed retirement annuities.

In addition, some of these schemes may provide a guaranteed growth and/or annuity rate. These entitle the holder to a guaranteed lump sum and/or income at a rate that may be higher than those available in the general marketplace.

While the FCA rules on transferring out of a pension containing an annuity contract are softer than for DB transfers, the ethos remains the same. It is in most people's best interests to keep their annuity contract.

> **Advisers should always research their client's existing schemes to ascertain if they provide any protections or guarantees**

Step 1

Ascertain and categorise the (potential) sources of income available

Defined contribution (DC)

Also known as a money purchase scheme.

DC pensions can be:

- workplace pension schemes set up by the saver's current or previous employer
- private pension schemes set up by the saver (possibly with an adviser).

The value of DC savings will go up and down depending on how the underlying investments perform.

Some schemes automatically move the savings into lower-risk investments as the member gets close to their selected retirement age. This is often known as a glidepath or lifestyling and can last well over a decade and so may not be appropriate.

For example, an individual may have selected a retirement age of 55, but in reality cannot afford to retire until age 68. In the meantime, their scheme will start de-risking from age 40, some 28 years before they actually retire.

Pension consolidation

It is common for advisers to consolidate DC pension savings into one scheme for ease of management, cost control and to implement a centralised investment/retirement proposition. Before recommending this, advisers should consider:

Small pots allowance

If any protection will be lost

If any guarantee(s) will be lost

In addition, it is important to evidence:

- that stakeholder pension solutions were considered and why they were deemed unsuitable
- that the workplace pension schemes that the member has access to (even if they have left) were considered and why they were deemed unsuitable.

In this assessment it is prudent to mention cost. The average fee (according to TPR) paid by workplace pension members is 0.48% pa, while most advised schemes charge significantly more.

Step 1

Ascertain and categorise the (potential) sources of income available

Other savings and wealth

It is not unusual for retirees to consider only the savings they have in pension schemes to provide them with an income in retirement.

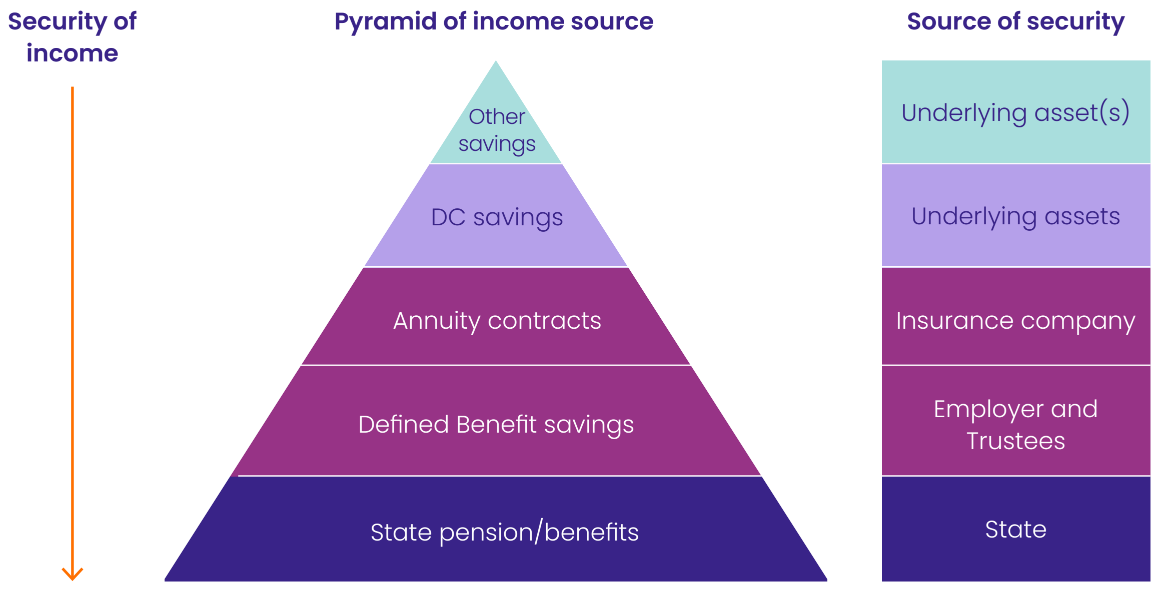
However, it is important to provide holistic financial planning and consider their entire financial circumstances.

For example, property should feature in the assessment, including considering the sale of second homes and rentals, as well as equity release.

Once you have collated and categorised your client's pension savings and potential income sources, you can apply their values to the pyramid of income source security shown in Chart 1.

This will instantly illustrate the security of the income available, which will help to ascertain its suitability going forward.

Chart 1: Pyramid of income source security



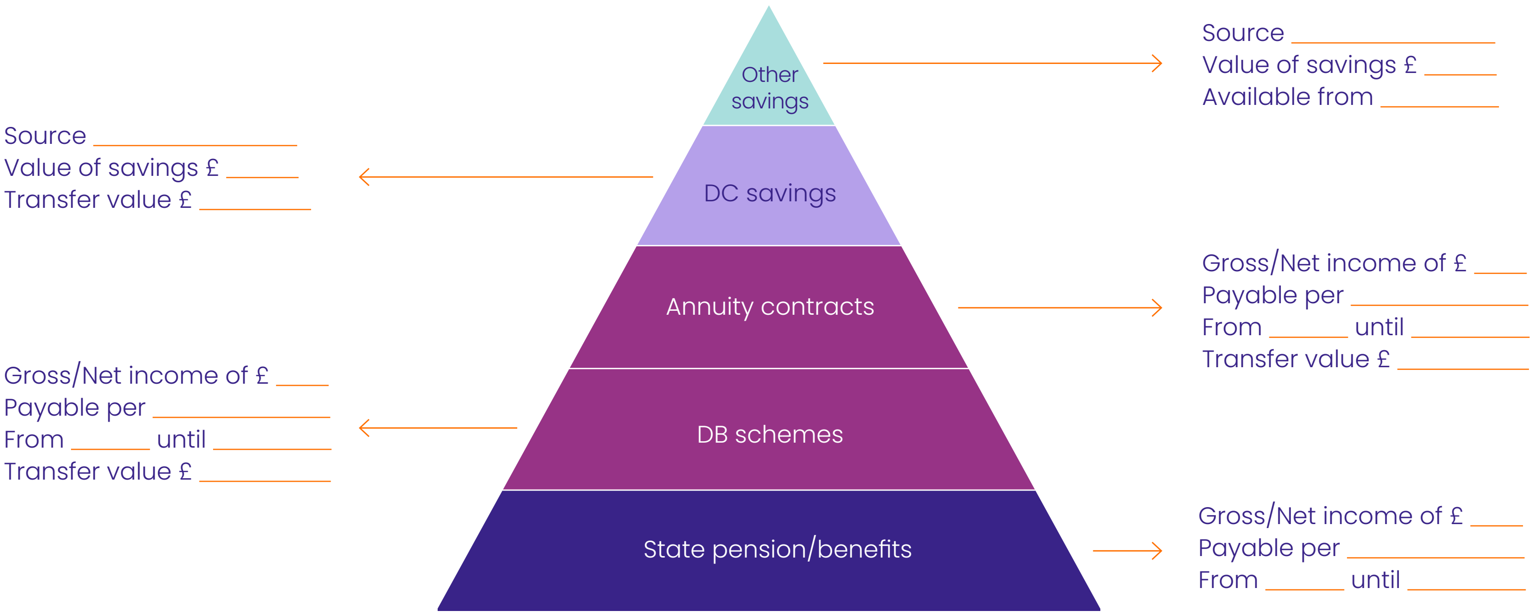
Source: Defaqto September 2023

Step 1

Ascertain and categorise the (potential) sources of income available

Chart 2 is a useful template to include in your compliance file when setting out a client's position prior to receiving advice.

Chart 2: Compliance file version of the pyramid of income sources



Source: Defaqto September 2023

Step 2

Ascertain and categorise the client's income needs and objectives

There are three elements to Step 2:

1. **Consider investment pathways to understand the client's key objectives**
2. **Ascertain the target market categories relevant to the client**
3. **Ascertain their monetary (income) needs.**

Investment pathways

Investment pathways ascertain where the client sees themselves and their pension savings in the next five years.

It is a COBS regulatory requirement (19.10) that retail clients be presented with the following Investment pathways options when considering how to access their benefits. Clients are asked to select the option that corresponds most closely to their current intentions.

1. I have no plans to touch my money in the next 5 years
2. I plan to use my money to set up a guaranteed income (annuity) within the next 5 years
3. I plan to start taking my money as a long-term income within the next 5 years
4. I plan to take out all my money within the next 5 years

It is important to note that advisers must not present any other investment options to their client during the discussion on investment pathways.

Step 2

Ascertain and categorise the client's income needs and objectives

Target market categorisation

The FCA's conduct of business sourcebook mentions the target market in many sections, most notably for advisers within the requirements for giving suitable advice and the consumer duty requirements.

There are six key questions advisers can ask their clients to help meet this regulatory requirement.

Your client's answers can then be used as criteria to categorise clients in the same way that platforms, providers and funds have been doing since 2018 when PROD and MiFID II rules came into play. Chart 3 shows the Defaqto target market Q&A categorisation matrix.

Chart 3: Defaqto target market question and answer (Q&A) categorisation matrix

Question	Prescribed category options				
What type of client am I dealing with?	Retail	Professional	Eligible counterparty		
Which distribution channel(s) are suitable?	Execution only	Non-advised/ guided	Advised	Portfolio management	
What are the client's needs and objectives?	Borrowing	Protection	Capital preservation	Capital growth	Income
What knowledge/ experience does the client have?	Basic	Informed	Advanced		
What are the client's capacity and appetite for loss?	Zero	Limited	No guarantee	Over 100%	
What is the client's time horizon?	< 1 year	1–2 years	3–4 years	5+ years	

Source: Defaqto September 2023

Step 2

Ascertain and categorise the client's income needs and objectives

By using the Q&A matrix in Chart 3, advice firms can ascertain at least six characteristics of every client that are crucial to providing suitable advice.

For example, your client could be a retail client looking for advice on income. They have a basic knowledge of their retirement and investment options and a limited capacity for loss and are looking for the solution to last at least five years.

With many clients sharing the same six characteristics, you may find that the solution recommended is broadly suitable for all clients who share these characteristics.

Taking this one step further, target market categorisation can create a more natural and easier method of client bank segmentation, which in turn will make reporting the consumer duty requirements easier as well as lowering ongoing review and management costs.

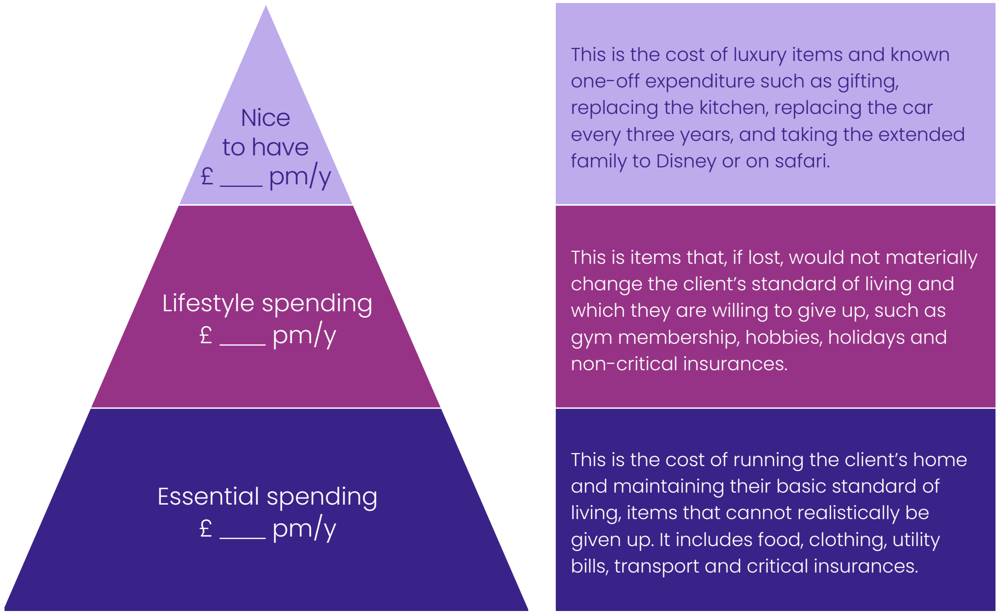
Income needs and objectives

In the previous target market assessment, we identified the client's needs and objectives, one of which is income, which we will now focus on with retirement in mind.

To prepare this advice we first need to understand how the client spends their money.

This will enable us to categorise their spending into three groups: 'essential', 'lifestyle' and 'nice to have'. Again, the hierarchy of need pyramid proves useful in doing this (refer to Chart 4).

Chart 4: Categorising income needs



Source: Defaqto September 2023

From an adviser/paraplanner perspective it is good practice to ask clients to compile a list of their expenditure prior to the meeting. Not only does this expediate the discussion, but it often improves their understanding of their own spending.

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

Being able to use the client's existing secure income sources in retirement is likely to be the least risky, cheapest and easiest option.

By collating the information collected in the previous stages into one, we gain a pictorial view of the client's financial circumstances and how each of their existing savings can be best categorised and utilised. Chart 5 on the next page shows how this might work.

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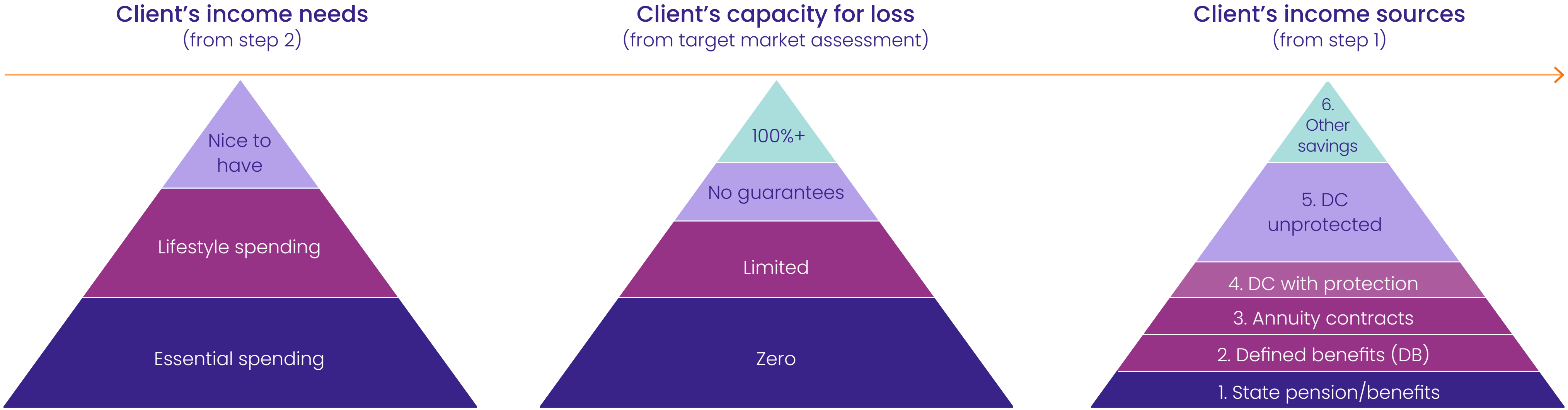
Step 3

Understanding the pension market landscape to match a clients existing income source(s) to their income needs and objectives

Chart 5: Evidencing suitability of income sources

Chart 5 illustrates, when read from left to right, the connection between the client's income needs, their capacity for loss, and appropriate income sources. We have used pyramids to illustrate that each level requires a firm foundation below it to create income security and that risk increases the further up a pyramid you go.

To help identify suitability we have colour coded the three key levels, the darker the colour the more security that is provided. We have also priority numbered each income source and by considering these in order, appropriate income security and suitability can be found.



Source: Defaqto September 2023

Essential spending, zero capacity for loss, and the state pension naturally correlate. However, correlation diminishes when risk is introduced on any one of the pyramids and this is where the position of the option on the pyramid becomes relevant.

For example, a client with a lifestyle income need and limited capacity for loss may find that an annuity best needs their needs. While a client with an essential income need and zero capacity for loss may also find an annuity best meets their needs.

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

Turning DC savings into income (decumulation)

In this section we explain and explore annuities and drawdown via FAD and UFPLS.

Where clients have insufficient secure income to cover their 'essential spending' (ie state pension, DB, annuity) it is good practice to use DC savings to buy an annuity to produce sufficient to cover at least their 'essential spending'.

Where clients have sufficient secure income to cover their 'essential spending', and the capacity for (income) loss, more risk may be taken with their other income sources and either FAD or UFPLS.

Annuities

Annuity rates have risen significantly over the last two years and now arguably represent better value than they have done for well over a decade.

When recommending an annuity there are five key questions to consider with your client:

1. Are they in poor health and/or live in a deprived area?
2. Do they require a single or joint life annuity?
3. How long do they want the guaranteed income for (most likely their lifetime)?
4. Do they want value protection?
5. Do they want inflation protection?

Answering positively to question 1 is likely to increase the income payable.

Answering positively to questions 2 to 5 will likely decrease the level of income payable. In return it will provide other benefits that produce peace of mind and financial security, if not for the client, certainly for their dependant(s).

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

1. Poor health and/or live in a deprived area?

Usually, insurance products involve consumers in poor health paying more or receiving less than the average. However, with annuities the opposite can be true.

This is because the worse the client's health and/or lifestyle the lower their life expectancy will be. Annuity providers can offer these individuals an 'enhanced annuity'. These are underwritten and commonly pay a higher income from day one.

An enhanced annuity is also known as an 'impaired life annuity' or an 'enhanced pension annuity'.

Advisers should complete the industry recognised 'retirement health form' to help them identify their client's health and lifestyle issues that could lead to them being offered an enhanced annuity.

retirementhealthform.co.uk

Common medical conditions that can result in enhanced annuity rates:

- Cancer
- Diabetes
- Heart problems
- High blood pressure
- Kidney failure
- Obesity
- Respiratory conditions
- Smoking

"Our research revealed nearly a third of advised customers (31%) think they need to be healthy to get the best annuity rates.* But the opposite is true. So there's an opportunity for advisers to bring this into their client conversations, potentially boosting their retirement income with an enhanced rate on their annuity."

Jon Scannell
Head of Partnership Solutions - Standard Life

*Standard Life research conducted by Opinion, March 2023

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

2. Single or joint life annuity

Single guaranteed income

Suitable for those who:	Not suitable for those who:
• Have no financial dependants • Partner/dependant already has an adequate secure income • Partner/dependant has a shorter life expectancy.	• Wish to provide an income for their partner/dependant

Joint guaranteed income

Suitable for those who:	Not suitable for those who:
• Have a partner/dependant with a good life expectancy but insufficient wealth/income to live on if the annuitant dies first • Want peace of mind that their loved ones are provided for.	• Have no financial dependants • Have financial dependants who have adequate retirement income of their own • Have a partner/dependant with a shorter life expectancy than their own.

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

3. Guaranteed period

Income payments can be guaranteed to continue after the life assured's death for a period of 1 to 30 years – known as the guarantee period.

Income can be paid to a chosen beneficiary, ie partner, child, sibling or financial dependant until the guarantee period runs out.

Example

Sam takes out an annuity with a 10-year guarantee and dies after 4 years. The income will continue to be paid to their chosen beneficiary for another 6 years.

If both lives assured appoint each other as their beneficiary when a joint life annuity is recommended, then a guarantee period may not be suitable advice

Suitable for those who:	Not suitable for those who:
• Wish to provide income after their death for a known period • Have a dependant with a life expectancy less than their own and will need financial support for a limited time • Cannot afford a joint income, but still want to provide for their partner or someone else	• Do not want to provide for anyone after their death • Do not have dependants • Can afford a joint annuity.

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

4. Value protection

Value protection, also known as 'capital protection'.

This option ensures that the full value of the guaranteed income product is paid as a lump sum to the annuity holder's estate or beneficiaries.

The lump sum is normally the amount you paid for the annuity minus the value paid out in income, although the protected value can be lower.

Example

Sam paid £50,000 for a guaranteed lifetime income and received £2,500 a year before tax. After 10 years Sam died, so their estate received £25,000 (£50,000 minus 10 X £2,500 = £25,000).

Suitable for those who:	Not suitable for those who:
• Want the peace of mind of a guaranteed income for life, but want their estate to receive back the balance unpaid.	• Do not want to provide for anyone else after their death • Can afford a joint income and in the event of their death want to provide for a partner/ dependant for the rest of their life.

Age dictates the tax payable on any protected value paid out...

- < 75 tax-free
- 75+ tax is payable at the beneficiary/ies personal income tax rate

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

5. Inflation protection

We explain interest rates and inflation in the next section, but here we explain the two key options to protect annuity income against inflation. Both are selected at inception and cannot be changed. It is good practice to ensure that at least your client's 'essential spending' is protected against inflation.

Fixed income

Clients can choose an income which stays the same throughout their life and never increases.

This provides zero protection against positive inflation.

A fixed income annuity will pay the most at the start, but the buying power of that income will decrease over time as prices rise due to inflation.

Suitable for those who:

- Have other income (including state pension) which will increase over time
- Believe they will not live long enough to benefit from any income increase
- Cannot afford to live on the lower income paid from an increasing income annuity and desire secure income today.

Increasing income

There are two ways to do this:

1. Increase the income by a set percentage each year.
2. Have the income increased by an inflation linked index. The most common options are:
   - **RPI** Retail Prices Index
   - **LPI** Limited Price Index.

An increasing income product pays a much lower income to start with, but eventually overtakes fixed income products and will mitigate the effect of rising prices over time.

Suitable for those who:

- Expect to live for at least 10 years
- Do not have any other income already protected from inflation.

Step 3

Understand the existing market landscape to match the client's existing income sources to their income needs and objectives

Drawdown

This is where pension savings are invested to produce a mixture of capital growth and income, from which the owner withdraws lump sums. For example, £500 per month to supplement their income, although they can also be ad hoc, as and when required.

Depending on the client's circumstances, lump sums withdrawn via FAD can be tax free and/or taxed at the individual's personal rate, whereas via UFPLS, each lump sum is 25% tax free and the remainder is taxed at the individual's personal rate.

Once you have decided if you are using FAD or UFPLS the next stage is to consider how much, if any, protection is required. Both capital and income can be protected.

Your client's decumulation attitude to risk and capacity for loss are critical factors in deciding if drawdown is appropriate and, if it is, how the wealth is invested.

DC with protection is a fund that provides either a degree of income or downside capital protection. This makes them appropriate to consider for the top end of 'essential spending' and the bottom of 'lifestyle spending'.

DC with protection

This can be provided by the product and/or the fund

Examples include:

- Smoothed funds
- With-profit funds
- Capital protection
- Income protection

Protection is not always 100%, for example 80% of the original income may be covered. This may be more appropriate for those on the cusp of having sufficient secure income to cover their essential needs

There is nearly always an additional cost for the security provided and comprehensive protection is more expensive than partial

DC unprotected

Any asset where capital and/or income is at risk. Generally, the lower the diversification the higher the risk

Examples include:

- Multi-asset funds
- DIM using collectives
- DIM using single assets
- Single asset funds
- Single asset

Both options are available direct from the manufacturer and in some cases via a platform.

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

Advising on income in retirement is always a balancing act between mitigating risk, receiving returns and retaining some flexibility. Some of the key risks to consider when assessing options for annuities and drawdown are shown in Table 2.

Table 2: Key risks when assessing options for annuities and drawdown

Risk	Description
Interest rate	Risk that interest rate movements may adversely affect annuity style products and guaranteed or protected solutions
Inflation	Risk of inflation eroding the buying power of income produced
Longevity	Risk of living too long/Risk of living longer than the savings
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
Commitment	Risk of selecting a solution and not being able to change the product choice, benefit shape, income level or death benefits
Financial ruin	Risk of 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
Political & economic	Risk that a change in legislation and/or regulations will impact on the net income received

Risk	Description
Insurer credit & counterparty	Risk of default by a provider of all or part of the solution
Diversification	Risk of putting all your eggs in one basket, or too many baskets
Timing	Risk of securing the level of income required at the time required
Investment	Risk of poor market returns that reduce capital sums and by association the level of income produced: • **Systemic market risk** – the risk of an event impacting on a specific asset class or market • **Specific risk** – the risk of a specific investment underperforming the market or its peers
Health	Risk that deteriorating health will bring about the need to access retirement capital and/or income to cover non-insured medical expenses and healthcare
FSCS	Insurance based contracts, such as an annuity, carry 100% protection whereas the drawdown solution may be less

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

There are many factors retirees need to consider both initially and ongoing, and we will focus on some of the more relevant risks over the next few pages.

Interest rates and inflation

The higher the inflation rate the faster prices increase, as measured by the consumer prices index (CPI).

Between 1990 and 2022 we experienced relatively low and stable inflation averaging around 2.5% per annum. However, we are now in a vastly different environment with rates having exceeded 10% as the Bank of England grapples to bring the rates down to their target of 2%.

This means that we have millions of people who have little or no experience of notable inflation. It is therefore sensible for advisers to explain the impact of inflation and the need to consider it in their planning.

To help illustrate the cost of inflation we have calculated in Table 3 the increase required in the value of £100 to maintain its buying power. Chart 6 illustrates this graphically.

Recommending an income without inflation protection is recommending your client has a decreasing standard of living

Table 3: Impact of inflation over 5, 10, 15 and 20 years

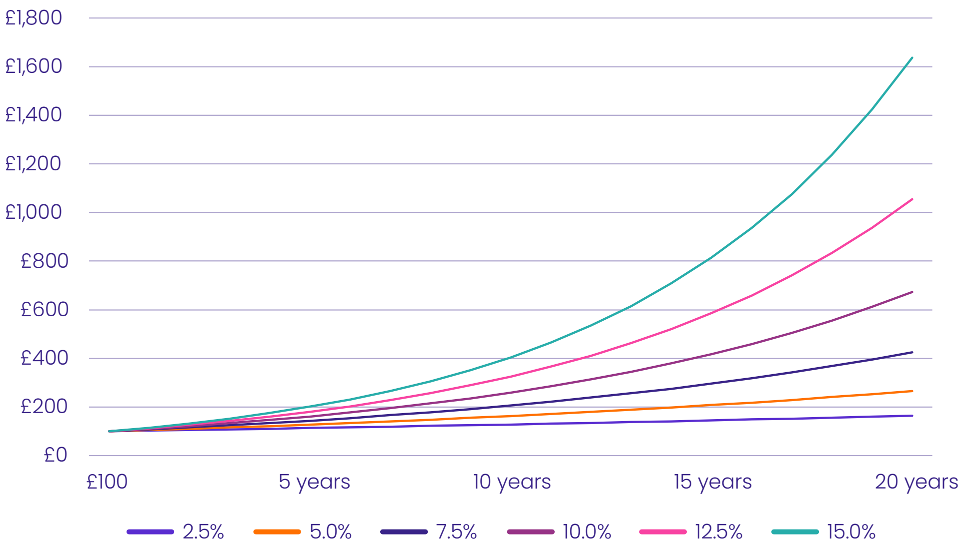
Inflation rate	After 5 years	After 10 years	After 15 years	After 20 years
2.5%	£113	£128	£145	£164
5.0%	£128	£163	£208	£265
7.5%	£144	£206	£296	£425
10.0%	£161	£259	£418	£673
12.5%	£180	£325	£585	£1,055
15.0%	£201	£405	£814	£1,637

Source: Defaqto September 2023 – all numbers rounded to nearest whole

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

Chart 6: Impact of different inflation rates over 20 years on £100



Source: Defaqto September 2023

"We're seeing an increase in the use of escalation of income within our own annuity quotes, with over 40% of quotes now including an escalation option. Advisers are aware of the impact high inflation is having on the cost of living and are rightfully seeking ways to combat rising prices eating away at the value of their clients' retirement income."

Peter Cowell
Head of Annuities - Standard Life

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

Longevity

If we all knew the date that we were going to die, financial planning would be much easier and the results more accurate.

But we do not know and, according to the Standford Center on Longevity, there is a 'prevailing tendency for people to underestimate their longevity[1].

Two in three pre-retiree males underestimate the life expectancy of the average 65-year-old male. Of that group, 42% underestimate average life expectancy by five years or more. For females, roughly half underestimate the life expectancy of the average 65-year-old female.

Therefore, while we cannot know when a client is going to die, we can use factual data to make an evidence-based assessment on when it may happen, which is likely to be at an older age that many clients anticipate.

The UK Office for National Statistics (ONS) has compiled the data for us, and this tells us the exact average life expectancy for males and females (refer to Table 4).

Table 4: Average life expectancy for males and females

	Male	Female
Age at 60 life expectancy is	84	87
1 in 4 will reach age	92	94
1 in 10 will reach age	96	98
Percentage that will reach 100	3.3%	5.9%

Source: www.ons.gov.uk, 10 July 2023

These are average ages, which means that half of the population will die lower than this age and half above it. There are some key factors that impact on longevity, including health, wealth and the environment. The better each one is, the longer life expectancy can be.

Cashflow modelling using ONS data such as that in Table 4 is an excellent way to illustrate to a client their likely life expectancy and how their financial plan needs to change to meet older ages. It is worth highlighting that secure inflation linked income sources, such as an annuity, reduce the risk and concern of the client outliving their savings.

"In a recent Standard Life study, 9 in 10 people told us guaranteed income was important to them. Plus, over half (55%) said they worry their retirement finances won't last their full retirement lifetime.* Coupled with the fact that people are generally living for longer, as well as experiencing a sustained period of market volatility, the core benefits of a pension annuity are impossible to ignore."

Peter Cowell
Head of Annuities - Standard Life

*Standard Life, Retirement Voice, 2023

Defaqto Engage users have access to cashflow modelling

[1] longevity.stanford.edu/underestimating-years-in-retirement/

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

Political and economic

It is often said that every decade we experience a financial problem that creates economic turmoil.

Based on just the last seven years, it seems we have certainly experienced more than our fair share with the quick succession of Brexit, Covid-19, Truss and Kwarteng's mini-budget and the war in Ukraine, to name but a few.

While stock markets have tended to take these issues in their stride, we are now plagued with stubbornly high inflation.

With those in power seemingly unwilling to use quantitative tightening or taxation control we find inflation is being fought using just the Bank of England's base rate.

Arguably, this is a strategy that brings a disproportionate impact on the housing market and those reliant upon investments to produce income ie retirees.

This is because base rate rises increase the cost of borrowing, which in turn slows down the ability and desire of people to buy property. It also restricts the ability of firms to expand and spend on research and development, thereby decreasing general economic growth.

Consumers see their standard of living decreasing in real terms, while also seeing the value of their biggest asset, their property, stagnate if not decrease in value.

For many retirees and those already fully retired this creates a desire/need for a more secure, inflation linked, source of regular income.

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Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

Regulatory landscape and recent legislation

DWP

TPR

FCA

Pension regulation in the UK could never be considered stagnant.

As we write the DWP and TPR are pushing ahead with the DB code of practice, while also postponing the Pensions Dashboard until October 2026. In the meantime, the Pensions Tracing Service continues to operate.

Throughout 2023 we have seen the consumer duty dominating manufacturers' and distributors' time.

In the remainder of 2023/24, we expect to see two further papers which will strongly influence advice on income in retirement:

- The FCA findings from its 'Thematic review of retirement income advice'
- The FCA/TPR rules on 'value for money' assessments.

The FCA's thematic review of retirement income advice is really the first in-depth review of retirement advice since pension freedoms were introduced back in 2015.

According to the FCA, prior to pension freedoms, three in four DC pension pots were used to buy an annuity; today the number is less than one in ten.

This is a huge swing from secure to unsecure income. In reality, this puts millions of retirees at risk of two outcomes:

- **under-spending**, which impacts on their standard of living unnecessarily and more generally on the prosperity of the country
- **over-spending** and becoming dependent upon the state later in life.

That said, pension freedoms have given consumers a greater level of flexibility in meeting their income in retirement needs, a fact that is hard to argue against. It is therefore foreseeable that any significant scaling back of the freedoms is unlikely to prove popular.

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Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

What can we expect from the review?

One of the main objectives is to understand the effectiveness of the existing regulatory framework. For example, the current rules do not protect consumers from over-or-under spending and so we may receive some further guidance/rules on this. Prior to pension freedoms, consumers needed to evidence that they had secure income in excess of £12,000 pa before they were allowed to utilise drawdown.

To mitigate the chances of pensioners living longer than their savings, the FCA may introduce a similar minimum income requirement. We can speculate as to what an appropriate minimum income threshold may be today. For example, the UK national minimum wage for someone aged 23 equates £20,319 pa, while the average salary is £26,312 pa.

As a rule of thumb aiming for an income equivalent to at least two-thirds of the final salary income is sensible. Based on the average salary, this equates to a little over £17,500 pa. Therefore, a minimum income threshold somewhere in the region of £17,500 to £20,000 seems like a sensible gateway to those wishing to enter drawdown.

That said, the FCA may not specify a specific income requirement, but rather a pot value below which 'value for money' cannot be found. TPR already does this at a provider level, where they state schemes with less than £100m of assets under management are unlikely to be able to provide value for money and therefore should look to close.

Alternatively, the FCA could follow the mortgage market and introduce an affordability test.

This will accurately ascertain the consumer's essential, lifestyle and nice to have expenditure and empower evidence-based decisions to be made. Mortgage advisers report this test takes about 15 minutes, but it can also be automated, so it is not a significant barrier to business. However, it is an assessment that will need redoing periodically to evidence ongoing income suitability. The pre-pension freedoms rules required the consumer's income to be tested at least triennially (every 3 years), but annual reviews were common.

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

What can we expect from the review?

Preventing individuals going into drawdown forces them to seek a secure income, in other words buy an annuity. However, forced buyers faced with a relatively small number of providers does raise concerns about competition, something the FCA will have to consider.

Perhaps smoothed and with-profit funds will be considered appropriate half-way houses for consumers, somewhere between an annuity and full drawdown where capital and income are not completely at risk. This then brings us on to avoiding foreseeable harm through conflicts of interest.

We may see the review comment on the suitability of their processes and products to provide the evolving income needs. Arguably, the consumer duty already picks this up and so this should not be a significant subject within the review.

The FCA Retail Distribution Review (RDR) found that around 90% of new retirees were placed in advised services that included ongoing advice. While this may seem sensible, the firms that did this tended to be primarily funded by income from ongoing fees. We can therefore anticipate the FCA making comment on this potential conflict of interest, probably while re-emphasising the requirements of the consumer duty.

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

While not wishing to speculate on the FCA's findings and new rules, we have created a checklist in Table 5 of the high-level factors to be considered when giving income in retirement advice.

Table 5: Checklist of headline factors to consider when providing income in drawdown advice

	Action	Completed?
1	The consumer matches the advice businesses target client	
2	The advice process considers the investment pathways and is tailored to the client's specific needs, objectives and circumstances	
3	The level of income being recommended is realistic, suitable and sustainable (evidenced by cash flow modelling?)	
4	Essential, lifestyle and nice to have spending needs are covered by suitable income sources	
5	Investments recommended can produce the required income and capital growth, within the client's attitude to risk and capacity for loss	
6	The consumer understands the costs and risks involved with the advised strategy	
7	The consumer understands the alternative options open to them (ie an annuity)	
8	Diary dates are set for ongoing suitability reviews, especially where an ongoing fee is being paid	

Source: Defaqto September 2023

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

Evolving markets and sequence risk in unprotected drawdown

The one thing we can guarantee about markets is that they are consistently unpredictable. Unprotected drawdown leaves investors exposed to market movements. This is despite capital and income stability being the backbones of a successful drawdown solution.

Sequence risk (sequence in return risk) is a significant issue for those reliant upon a mixture of dividend income and capital growth to create their income. In essence, it is the danger that the timing of withdrawals, combined with falling capital values, will have a negative impact on the net income available to the investor. Often, for the rest of their lives.

There are four key methods to mitigate its impact, as shown in Table 6.

Table 6: Common methods of mitigating sequence risk

Control withdrawals	Draw income from the investments at a conservative rate and have the ability to be flexible with the income ie turn it down and off as and when required
Diversify to reduce volatility	A wide spread of asset classes and asset types can reduce the overall impact of volatility and capital loss experience. With-profit and smoothed funds are also useful asset classes for clients taking income who are in need of capital security
Build a buffer	If you know that your client is going to withdraw £5,000 per annum for the next five years, then (if they can afford it) put aside £25,000 in cash to feed their monthly calls. This way the remaining value is free to move with the markets without affecting your client's income for the next five years. Keeping this buffer in place and reviewing it as part of the (at least) annual review should result in the client being unlikely to be a forced seller in a bear market. If you factor in inflation the buffer will need to be greater than £25,000
Buy an annuity in a Trustee Investment Plan (TIP)	When an annuity is bought inside a TIP the trustees have the final decision over whether the income produced by the annuity is paid out as income (and taxed) or reinvested within the TIP (tax free). This turns annuity income into an income producing asset class. Where the income paid can be turned down or off to meet the client's evolving needs and the balance not required can be invested for future growth.

Step 4

Consider additional factors before advising the client to change their existing pension saving vehicles

Manufacturers (Providers)

The consumer duty has made it a regulatory requirement for distributors (advisers) to consider the suitability of all of the manufacturers in the distribution chain in which they recommend their client participates. This is because the failure of one part of the chain, even a silent partner like a cloud provider, could have a significant impact on the client.

The first assessment many advisers consider is the manufacturer's financial strength rating. However, not all members of the distribution chain will hold one. It is also important to understand the methodology those ratings providers apply. While quantitative research on the provider's scheme accounts will be included, it is important to understand how in-depth this has been.

Also, the adviser should consider whether there has been any qualitative assessment applied, for example a view on the commitment of the provider to the market in which their product sits, any rumoured M&A activity, or a need for technology investment.

Financial strength ratings are commonly used by advisers as sifts to remove problematic and smaller providers from their research process. This creates a more manageable shortlist of manufacturers and products on which to undertake more detailed due diligence.

The consumer duty also requires advisers to consider and assess the four specific outcomes as well as applying their own experience of the manufacturer. Using a well-known and regarded manufacturer and brand that is committed to the market and has a strong focus on the consumer outcomes through evidenced governance, monitoring and process control seems a sensible approach.

Consumer duty outcomes

Governance of products and services	Price and value
Consumer understanding	Consumer support

"The FCA's thematic review of retirement income advice is coming down the tracks. And this, in the regulator's own words, 'will be an important indicator of how firms are implementing the Consumer Duty'. Ensuring clients achieve financial objectives and avoid foreseeable harm is a complex task in the current climate. Setting the right retirement income strategies and the ongoing reviews, planning and close understanding of clients' evolving needs is going to be key to achieving good outcomes."

Claire Altman
Managing Director, Individual Retirement - Standard Life

Step 5

Suitability advice considerations

Having undertaken the previous steps, we come to allocating the client's remaining DC savings to suitable investments.

One crucial factor to remember is that both the attitude to risk and the capacity for loss assessments are different for the accumulation and decumulation phases.

Indeed, the reason some clients are taking far more risk in their retirement solution than they were expecting is that they were assessed using an accumulation workflow rather than a decumulation one.

Table 7 summarises the differences between the workflows.

Table 7: Differences between accumulation and decumulation workflows

Accumulation	Decumulation
Attitude to risk assessments assume: • Key objective is capital growth • Further money may be added • The money will not be withdrawn in the next five years	**Attitude to risk** assessments assume: • Key objective is income with some capital growth • No further money will be added • All dividend income and some capital will be withdrawn on an ongoing basis
Capacity for loss The capacity for a client to absorb falls in the value of their investment without creating a detrimental effect on their standard of living	**Capacity for loss** The capacity for a client to absorb falls in the value of their investment **and income** without creating a detrimental effect on their standard of living
Investment approach The advice firm should have a centralised investment proposition (CIP) for all advised clients in accumulation. This should tie in with the firm's target market categorisation and allow a low-cost, smooth transition into the centralised retirement proposition (CRP)	**Investment approach** The advice firm should have a centralised retirement proposition (CRP) for all advised clients in decumulation. This should tie in with the firm's target market categorisation

Step 5

Suitability advice considerations

For some clients, the current economic and societal factors are the trigger for them to seek a more secure, inflation linked, retirement solution.

The reality is that had their attitude to risk and capacity for loss been more accurately assessed they probably would not be in this position. That said, both assessments have evolved significantly in recent years as the industry improves its understanding of risk and the outcomes it creates.

"It's increasingly important to help clients understand that their retirement income doesn't have to be a binary choice between drawdown and annuities. By finding the balance between the need for certainty and desire for flexibility, there's room to enjoy the benefits of both.

And the strategy put in place doesn't have to be a one and done either. Securing the guaranteed portion of the income can be undertaken in stages, to take advantage of improving annuity rates as people get older. As well as giving people flexibility, this could also act as a good inflation hedge - particularly important in current times."

Claire Altman
Managing Director, Individual Retirement - Standard Life

Step 5

Suitability advice considerations

Ongoing reviews

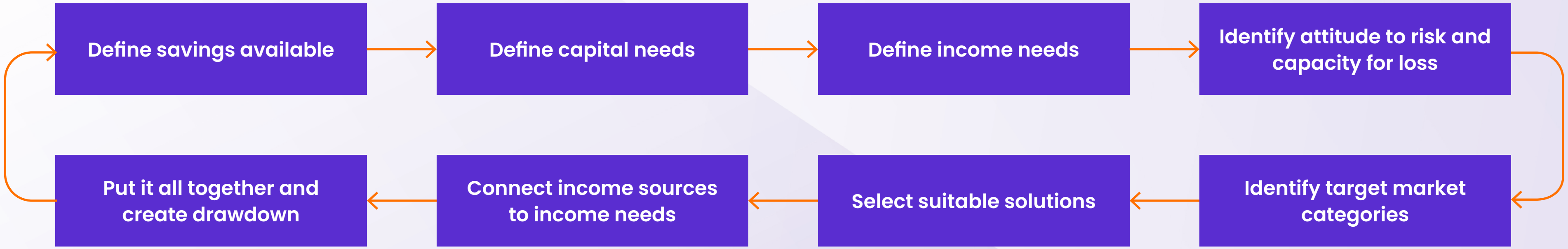
Producing income using unsecured income sources, such as DC savings, requires ongoing advice and suitability checks.

Get just one element of the advice process slightly wrong and there is the potential to impact on the client's standard of living and those dependent upon them, for the rest of their lives.

Having a defined process, which you follow without fail, will help you navigate the common pitfalls and issues, but only if combined with regular reviews.

In essence, unsecured drawdown reviews should follow the process illustrated in Chart 7.

Chart 7: Illustration of ongoing review process



Source: Defaqto September 2023

Step 5

Suitability advice considerations

Summary

Advising on income in retirement is not straight-forward.

By breaking down the process into manageable segments, it becomes easier to establish and review on an ongoing basis. It also makes it easier for the client to understand, which is a requirement under the consumer duty.

Understanding your client's wealth and their needs and objectives, and then cross-referencing these with their attitude to risk and capacity for loss will enable you to categorise them. Again, a requirement of the consumer duty.

An evidence-based retirement plan can be established by allocating secure, inflation linked, income sources to cover 'essential spending'. Then, as the need for capital and income security decreases, if prudent to do so, less secure income sources can be utilised.

While not appropriate for all, a solution facilitated through a single provider improves client understanding (part of consumer duty) and creates a convenient and flexible solution that can evolve with them.

For many consumers, an open-market annuity will form part of their retirement portfolio of income sources. The reasons are:

- An annuity provides income security, especially when inflation-linked
- Annuity rates have risen significantly in the last year or so, making their returns far more attractive
- Where health and wealth issues exist, an enhanced annuity can provide a level of income not available on the mass market
- Annuities are great for covering 'essential' and 'lifestyle' income requirements, especially for older and vulnerable clients where their desire to have a drawdown solution can be diluted by health and interest.

When the annuity is bought by a TIP, it becomes an investment class in its own right. This is because the income it produces can be turned down or off by the trustees, with any excess being reinvested tax efficiently.

The consumer duty has made selecting a manufacturer (provider) of solutions a more complex process, albeit one designed to improve the consumer's experience.

With this in mind, it seems sensible to select a manufacturer that can clearly and impartially evidence 'fair value' in each of the four consumer duty outcomes.

Other common selection criteria include target market compatibility and financial strength ratings. These are particularly useful criteria when moving from a whole of market perspective to one designed to meet an individual consumer's very personal needs and objectives.

Appendix A

FCA guidance for those considering a defined benefit (DB) pension transfer.

Considering a defined benefit pension transfer

Transferring out of a defined benefit (DB) pension scheme is a big decision and isn't right for everyone. Find out what you need to think about, and the risks involved.

Defined benefit pensions

A DB pension is sometimes called a final salary pension. It gives you a guaranteed lifetime income that usually increases each year to protect you against inflation.

A DB pension is different to a defined contribution (DC) pension. This is where you build up a pension pot. You'll need to choose how to invest the money in your pot and how to take a retirement income from it. The value of the pot can go up or down depending on how the investments perform.

You can find out more about DB pensions and DC pensions from MoneyHelper.

The FCA and The Pensions Regulator (TPR) believe it's in most people's best interests to keep their DB pension. You can't reverse a transfer, so you need to make sure you understand the risks so you can make an informed decision.

Risks of transferring

If you transfer from a DB scheme to a DC scheme, you:

- lose the guaranteed lifetime income from your DB scheme, for you and your dependants
- lose the inflationary protections offered by your DB scheme
- have to pay a DC scheme, and investment managers, to manage your pension and the investments in it, which is deducted from your pension pot
- have to decide how to invest your money, or pay someone to do it for you
- may see your pension pot fall in value, as well as rise
- may have less income in retirement, particularly if the value of your pension pot falls
- may run out of money in your lifetime

You'll be able to make an informed decision if you get advice before transferring. Depending on the value of your pension, you may have to do this by law. Find out more about transferring a DB pension from MoneyHelper.

If you transfer out of your DB scheme because you think the employer who runs it might go out of business, you'll lose the protection available from the Pension Protection Fund (PPF) for eligible schemes.
Visit ppf.co.uk for more information.

If you're considering a transfer because the employer who runs the DB scheme is changing or replacing the scheme, please read the information they provide. This will help you understand the new arrangements, the timeframes involved and what you'll be giving up if you transfer.

Appendix A

FCA guidance for those considering a defined benefit (DB) pension transfer.

Who is least suited to a transfer

A transfer is probably not for you if:

- this is your main or only pension, or you can't live off a lower income
- you'll rely on income from this pension throughout your retirement
- your DB pension meets your needs, so you don't need to invest in assets that might go down in value
- you have dependants who might prefer some of the DB pension features, such as a guaranteed income rather than a lump sum
- there are alternatives to what you are trying to achieve with a transfer, such as providing death benefits for your family

Who is best suited to a transfer

Under certain circumstances, a transfer may be suitable for your needs if:

- you won't rely only on your DB scheme to meet your income needs but will have other sources of retirement income
- you have a limited life expectancy and you want your family to be financially secure on your death. If you transfer, you may be able to get more value from a transfer for yourself and your family than if you stay in a DB scheme
- on rare occasions, if you're in serious financial difficulty you may benefit from a transfer. But this will generally mean sacrificing long-term security for short-term gain

You should get financial advice if you're considering a transfer. Read about what to expect when taking advice on transferring your defined benefit pension at fca.org.uk/consumers/pension-transfer-advice-what-expect

Appendix A

FCA guidance for those considering a defined benefit (DB) pension transfer.

Dos and don’ts

- don’t rush – take your time and understand the risks
- don’t transfer just because your colleagues are doing the same
- don’t talk to companies who contact you out of the blue offering to talk about your pension options
- be on your guard against scams and learn how to spot the warning signs of a pension scam, learn more at fca.org.uk/consumers/pension-scams
- be aware that if you’re overseas and using non-UK firms to advise you, you may not have the same level of protection, and there may be extra charges or commissions

https://www.fca.org.uk/consumers/pension-transfer-defined-benefit
24/08/2023

Learning objectives

Having read this document, you will now be able to:

1. Understand and describe the current income advice marketplace
2. Understand and state the key regulatory, economic and societal factors impacting advice today
3. Understand the income advice solutions available and how they interact/compare to each other
4. Know the key risks to be considered in the advice process

Test yourself for CPD purposes

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

1. **How much is the full new state pension payment?**

2. **What does DC stand for in DC pension?**

3. **List 5 of the key risks to be considered when advising on annuities and/or drawdown**

4. **If inflation consistently sits at 5%, what would £100 need to increase its value to in order to maintain its current buying power in 5 years time?**

5. **According to the ONS, what is the average life expectancy age for a female currently aged 60?**

CII/PFS and CISI accredit this document for up to **1 hour** of structured continuous professional development (CPD)

Name	
Signature	
Date	
CPD time recorded	
How has the learning met your professional development needs?	

Answers

As a guide, your answers should include the following points:

1. £203.85
2. Defined Contribution
3. Interest rates; inflation; longevity; sequence; commitment; financial ruin; diversification; insurer credit & counterparty; political & economic; timing; investment; health; FSCS
4. £128
5. 87

Section B

Sponsored by

Standard Life

Part of Phoenix Group

Introduction

In this section we will shed light on the Standard Life retirement income solutions, including their new annuity product.

While the addition of the annuity makes the Standard Life proposition one of the most comprehensive, we are promised further solutions and support functionality over the next few years.

We will cover the following subjects:

- Standard Life – the provider
- Connecting Standard Life solutions to specific income needs and objectives
- Standard Life Pension Annuity
- Unsecure income solutions
- Support for advisers
- Defaqto conclusion
- Learn more

Standard Life – the provider

The Standard Life name has been with us for nearly 200 years and is wholly owned by Phoenix Group, the UK's largest long-term savings and retirement business. The Phoenix Group can trace its history back to Phoenix Assurance in 1782.

The scale and size of Standard Life can be ascertained easily on their website and through their annual accounts, but some key facts include:

- **c. 12m customers**
- **£259bn Assets Under Management (AUM)**
- **189% shareholder capital coverage ratio**

Source: Standardlife.co.uk, figures are from 31 December 2022

Impartial ratings

Ratings are useful impartial assessments that instantly express how a manufacturer and their products are considered, and their position in any given marketplace. Standard Life's ratings are shown in Table 8.

Table 8: Financial strength and credit ratings

	AKG financial strength rating	Fitch financial strength rating
Standard Life	B+ 19/02/2023	AA- Stable 21/03/2023

Source: standardlife.co.uk/ratings and thephoenixgroup.com/investor-relations/debt-holdings-credit-ratings

Standard Life – the provider

Annuities are primarily purchased based on the income they produce. For this reason, Defaqto does not Star rate them. However, it is worthwhile considering how the Standard Life wealth propositions are rated to indicate the quality and comprehensiveness of the solutions they already operate.

As you can see none of their propositions are accredited with a low rating. Indeed, the majority hold the maximum 5 Star Rating. This indicates a brand focused on providing comprehensive solutions to a wide proportion of the population, by meeting their needs and objectives.

Personal pension

Standard Life (defaqto EXPERT RATED ★★★★★)

- Active Money Personal Pension
- Active Money SIPP

SIPP

Standard Life (defaqto EXPERT RATED ★★★★★)

- Active Money SIPP

Drawdown

Standard Life (defaqto EXPERT RATED ★★★★★)

Active Money Personal Pension

- Active Money SIPP

Workplace pension

Standard Life (defaqto EXPERT RATED ★★★★★)

- Good To Go – GFRP
- Group Flexible Retirement Plan
- Group Self Invested Personal Pension
- Group Stakeholder Pension

Standard Life (defaqto EXPERT RATED ★★★★)

- Standard Life Master Trust
- Trust Based Pension

Onshore bond

Standard Life (defaqto EXPERT RATED ★★★)

- Tailored Investment Bond

International bond

Standard Life International (defaqto EXPERT RATED ★★★★★)

- International Bond

Standard Life – the provider

Beyond the quantitative data assessment

While ratings are a fantastic indicator of the quality of a manufacturer, it is a requirement of the consumer duty for advisers to have a real understanding of them and to dig deeper.

Understanding a business's culture can be difficult from the outside, especially when it comes to its ethical and societal thinking.

Therefore, it is worth noting that Standard Life is a proud partner of the Cancer Research UK Race for Life events in 2023, 2024 and 2025.

Race for Life CANCER RESEARCH UK

Proud Partner Standard Life

Since 2021, Standard Life, as part of Phoenix Group, has been a UK corporate charity partner of the Samaritans, a position voted for by employees.

This has led to them becoming a founding partner of the Samaritans Training School. An initiative to help Samaritans to recruit and train more listening volunteers.

As well as supporting the charity financially, colleagues within Standard Life's Vulnerable Customer Team have attended courses delivered by Samaritans Training and Engagement Programmes (STEP) on how to spot the signs and support someone who might be struggling to cope.

SAMARITANS

By 2025	By 2030	By 2050
Net zero target for business operations 25% reduction in the carbon emission intensity of investments	50% reduction in the carbon emission intensity of investments	Net zero carbon emission of investments

defaqto

Standard Life – the provider

Governance and expertise

Standard Life has a formal product governance policy, procedures, and processes in place to help ensure the Standard Life Pension Annuity remains compliant with legislation while meeting the needs of its target market.

1. Formalised approval process for new product developments and changes to existing products, including appropriate stress and scenario testing so the proposition remains compliant and appropriate for the target market in view of any changes made since initial launch.

2. Regular formal reviews to determine that the product is reaching the identified target market with fair outcomes, as well as demonstrating fair value and meeting the needs of all customers including vulnerable customers.

3. Customer needs and risks identified, with proposed customer experience, selected distribution channel, and relevant legal and tax position considered. Relevant risks and potential conflicts are identified, and appropriate mitigations are put in place.

4. Research exercises conducted to validate the target market, test customer needs (including those of vulnerable customers) and understanding of proposition.

5. Distribution strategy developed to match the target market and reviewed regularly.

6. Feedback from customers and intermediaries to confirm:
    - The proposition remains appropriate for the target market
    - The distribution strategy remains appropriate for the target market
    - The proposition is meeting the needs of customers
    - The product benefits remain consistent with the needs of customers
    - Our communications remain clear.

7. Regular monitoring of our pricing, charges, fees and costs associated with the annuity to ensure they remained proportionate and reflect current market conditions.

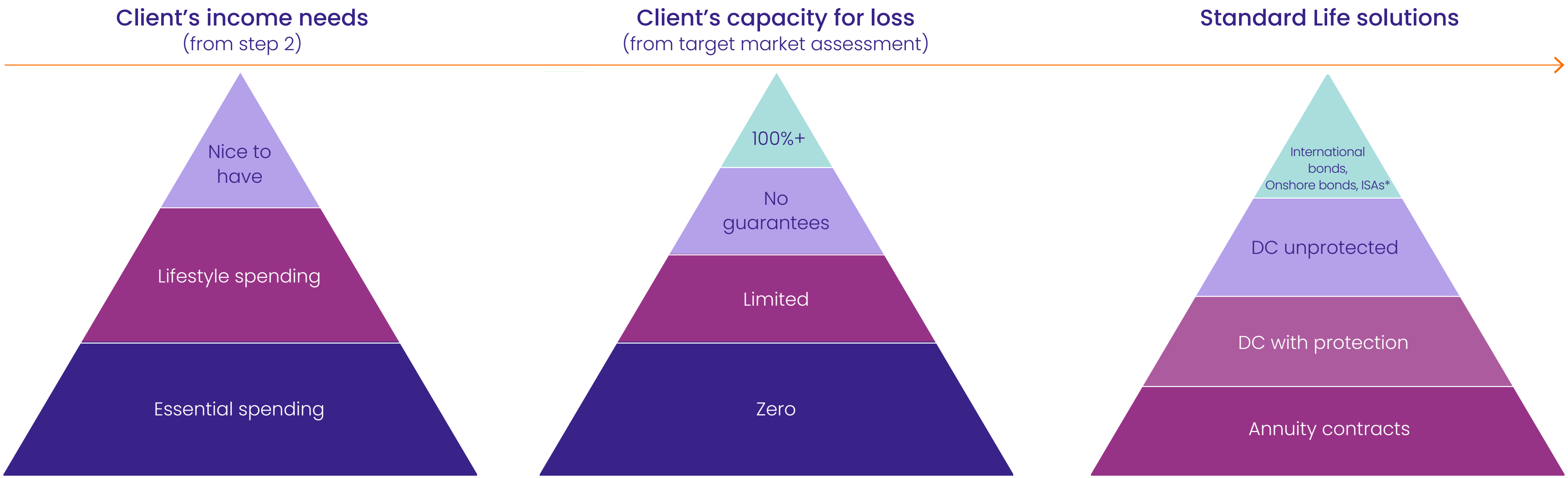
Source: Standard Life

Connecting Standard Life solutions to specific income needs

While a client's target market categorisation, attitude to risk and capacity for loss are all critical assessments in recommending a provider and their solution(s), it is always useful to be able to see it in a simple pictorial view.

In Chart 8, going from left to right, we show the income needs, the capacity for loss and finally the different income solutions provided by Standard Life.

Chart 8: Illustration of how Standard Life income solutions can meet specific income needs



Source: Defaqto September 2023

As illustrated, Standard Life has an income solution to meet all income needs for clients, irrespective of their capacity for risk.

* In partnership with Cushon.

Connecting Standard Life solutions to specific income needs

Summary of manufacturer

Standard Life is part of the largest long-term savings and retirement business in the UK.

They have a strong consumer brand, a stated commitment to market and a consistent healthy and diverse income stream to maintain it.

Standard Life has launched a new annuity to the whole of the market, building on the group's existing annuity proposition expertise.

They plan to offer further retirement income solutions in due course.

This means advisers can use impartial evidence to recommend both the brand and the annuity solution.

Standard Life Pension Annuity

New providers in a product area are always welcome as they help create a healthier market, with more choice and a different approach to pricing.

The Standard Life proposition increases the number of providers operating in the whole of life annuity open market arena in the UK to six.

Advisers using any of the major portals will find Standard Life appear for quotation. Standard Life also appears on the free consumer orientated MoneyHelper (MaPS) website's annuity calculator.

Looking at the bigger picture, and where a client is recommended a suite of income solutions to meet different income needs, the Standard Life solution can house them in one place. This improves ease of understanding, management and reporting, all benefits required by the consumer duty.

Annuity eligibility

Eligibility requirements are set out in Table 9.

Table 9: Annuity eligibility requirements

Min. age	55, rising to 57 from 6 April 2028 Unless the client has a protected lower retirement age, or is retiring due to ill health
Max. age	85 attained if using open market option 74 attained if using immediate investing personal pension
Min. purchase value	£10,000 after PCLS and adviser charging
Max. purchase price	£1,000,000 after PCLS and adviser charging (larger cases will be considered)
Income payment frequency	Monthly Quarterly Half yearly Annually Paid in advance or arrears

Source: Standard Life

Standard Life Pension Annuity

Annuity options

Table 10: Annuity options

Min. age	Options		Description
Escalation	Level RPI	LPI Fixed (0.01% – 10%)	This can help maintain the buying power of the annuity income by linking it to increase in line with an index each year or by a set percentage
Guaranteed payment period	Zero to 30 years Cannot be combined with value protection		Begins on the date the annuity starts This means if your client dies during the chosen period, Standard Life will continue to pay the income to their estate or beneficiary until the guaranteed period ends
Dependant's income	Zero to 100% of the client's income Cannot be combined with value protection		Standard Life will pay an income to your client's surviving spouse or dependant when they die
Value protected	Zero to 100% of the purchase price Cannot be combined with guaranteed period or dependant's income		When your client dies, Standard Life will pay a lump sum for the amount they protected, minus any income payments already made
Overlap	With Without		Only available where your client selects a guaranteed period and dependant's income If your client dies during the guaranteed period and has selected overlap, their income will continue to be paid as well as the dependant's income
Proportion	With Without		If your client selected with proportion, Standard Life would make an income payment which represents the number of days between the date on which the last income instalment was paid and the date of their death

Source: Standard Life

The options chosen may impact the amount of income payable. However, the longer-term benefit and peace of mind created should be included in any assessment for suitability.

Standard Life Pension Annuity

Enhanced annuities medical factors – underwriting

The client's medical and lifestyle history can have an impact on their ability to qualify for enhanced terms and receive a higher level of income.

Using the industry recognised retirement health form advisers can be sure of collecting their client's medical and lifestyle history, which may lead to them being offered an enhanced annuity. This can be downloaded for free from RetirementHealthForm.co.uk.

Phoenix underwriters provide enhanced annuity income to those with a range of medical conditions, and these are listed in Table 11 on the next page.

In addition to medical factors, where they live may also lead to them being offered a higher income.

RetirementHealthForm.co.uk

Standard Life Pension Annuity

Table 11: Range of conditions considered for enhanced annuities

Diabetes	Hypertension (high blood pressure)	Multiple sclerosis	Obesity	Raised cholesterol	Smoking

Cancer	Heart and vascular conditions/ interventions	Neurological conditions	Respiratory conditions	Stroke	General medical conditions/ interventions
• Bladder • Bowel • Breast • Central nervous system tumours • Kidney • Larynx • Lip • Lung • Malignant melanoma • Non-Hodgkin lymphoma • Oral cavity • Oropharyngeal • Ovarian • Prostate • Testicular	• Angina • Aortic aneurysm • Aortic aneurysm repair • Atrial fibrillation • Cardiomyopathy • Heart attack • Heart failure • Heart transplant • Heart valve disorders • Heart valve replacement • Peripheral vascular disease • Coronary angioplasty • Coronary artery bypass graft (CABG)	• Alzheimer's • Motor neurone • Myasthenia gravis • Paralysis • Parkinson's • Senile dementia • Vascular dementia	• Asbestosis • Asthma • Bronchiectasis • Chronic obstructive pulmonary • Emphysema • Interstitial lung • Pneumoconiosis • Sleep apnoea	• Cerebral haemorrhage • Cerebrovascular accident • Subarachnoid haemorrhage • Transient ischaemic attack	• Chronic kidney disease (CKD) • Cirrhosis • Crohn's disease • Dialysis • Hepatitis • HIV • Kidney/lung transplant • Pancreatitis • Polycythaemia • Polymyalgia rheumatica • Rheumatoid arthritis • Sarcoidosis • Systemic lupus erythematosus (SLE) • Thrombocytosis • Ulcerative colitis

Support for advisers

Standard Life want to make it easy for advisers to work with them – so you can choose how you prefer to run things. They will also keep you up to speed with progress, whatever route you go down.

Portals

- You can get an instant quote for a Standard Life Pension Annuity through all major portals.
- If your client would like to go ahead, simply complete and return their application – either by email or post.

Contact details

Broker support team

Tel: 0808 164 0164
Monday to Friday 8:30am – 5:30pm
Call charges may vary

Email: AdviserAnnuitySupport@StandardLife.com*

Standard Life
PO Box 826
Telford
TF7 9HX

*Standard Life can't guarantee that they will receive any email you send to them, or that it wont be intercepted by someone else. For these reasons, you should always protect any client information you share with them by email.

Dealing directly with Standard Life

- The dedicated Annuity Broker Support team can help to build a quote for your client. They just need a few details from you, including a completed Retirement Health Form.
- They will send you an application form to complete along with your quote, which you can either email or post back.

Unsecure income solutions

When providing advice on taking income from DC savings the primary solution from Standard Life is their Active Money pension. This is available as either a personal pension or a SIPP, however we will concentrate on the SIPP version which provides a much wider range of investment options.

AMSIPP investment options

This is a more comprehensive version of the Active Money pensions. It provides more sophisticated and a wider spread of investment solutions. These can be selected individually or combined to meet the needs of those advisers using a CIP or CRP.

Table 13: AMSIPP target market

Light purple indicates suitable Light orange indicates unsuitable

Question	Prescribed category options			
Client types	Retail	Professional	Eligible counterparty	
Distribution channel(s)	Execution only	Non-advised/ guided	Advised	Portfolio management
Needs and objectives	Capital preservation	Capital growth	Income	
Knowledge/experience	Basic	Informed	Advanced	
Capacity and appetite for loss	Zero	Limited	No guarantee	Over 100%
Time horizon	< 1 year	1–2 years	3–4 years	5+ years

Wide range of funds

A range of insured funds, mutual funds and access to specialist options including commercial property, DFMs, and stocks and shares.

Investment Pathways

All four of the investment pathways are facilitated

Unsecure income solutions

Costs

Clients may receive a yearly discount based on how much is invested between insured funds and mutual funds in their plan. A yearly discount is applied by adding extra units to their insured funds.

Value in Active Money	AMSIPP discount
Less than £25,000	0.3%
£25,000 and over	0.5%

Income options

The Active Money solutions are designed around simplicity and flexibility and are summarised in Chart 9.

Chart 9: Active Money solutions

Tailored drawdown	Full drawdown	100% tax-free lump sum
This flexible and efficient solution facilitates any combination of tax-free and taxable income, within legislative limits, when paid as a regular income. This includes payments akin to UFPLS.	This solution facilitates the full range of income options from 100% tax-free income, through to 100% taxable income. Perfect for clients with other income sources and advisers looking to create a tax-efficient income stream.	Suitable for those who require cash, but do not want to pay income tax on the balance. It does create tax implications for income taken in the future, as this is more likely to be fully taxable, but it does create a sensible planning option.

Defaqto conclusion

The launch of a new pension annuity product clearly shows Standard Life feels that there is a group of savers for whom annuities are a critically important part of income in retirement planning.

After the initial excitement of pension freedoms and the flexibility they brought, perhaps a sense of reality is now sensibly creeping back into consumers' expectations on retirement.

It is hard to argue with this logic and, as we have explained in this document, annuities are still the safest way to guarantee a level of income and therefore cover all essential costs in retirement.

Standard Life also acknowledges that as well as this guaranteed income, advisers are looking for more innovative solutions to manage their clients' retirement needs, and it is for this reason that further innovation will follow in the retirement space as support and functionality will be expanded over the next few years.

This is an intriguing first step on that journey.

There are no guarantees in life*

***Exclusions apply**

In a world of ups and downs, we can help your clients look forward to a little more certainty.

It's time to discover our new pension annuity.

Find out more at
standardlife.co.uk/guaranteedforlife

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We maintain the UK's largest financial product database and use proprietary research methodology to develop independent ratings, reviews, insights and technology.

By bringing together product data, technology and consumer insight we are in a unique position to help everyone make smarter, more informed financial choices now and in the future. And in doing so we hope to raise industry standards, power consumer choice and help the industry meet evolving customer needs.

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Defaqto Star Ratings give consumers and financial professionals the confidence to choose the right financial products for themselves and their clients, by providing an unbiased assessment of quality they can trust.

Diamond Ratings

Assess the quality and performance of any given fund at a glance. With a clear and consistent scoring approach, Diamond Ratings make it easy to understand where a fund or MPS family sits in the market.

Service Ratings

Compare the quality of service across multiple product providers to support your product selection and recommendation process.

Risk Ratings

Align a fund or MPS portfolio to a client's agreed level of risk. Use the ratings to quickly assess risk positions and deliver compliant advice.

Investment Reviews

Get the full story behind an investment solution. Use our detailed accounts of the people, processes and philosophy involved for a comprehensive and unbiased assessment of its value.

defaqto

01844 295 546
sales@defaqto.com
@DefaqtoAdviser
linkedin.com/company/defaqto

defaqto.com

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