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Aegon Adviser Attitudes Report 2017

A spotlight on advisers' clients

Pensions | Investments | Protection

Introduction

The Adviser Attitudes report series sets out to look at the health of the financial advice market, gauging the views of advisers on the issues that are affecting their businesses and clients. In the first report we reviewed the outlook for the financial advice sector and the adviser businesses within it. The second looked at the way that advisers are using technology, all the way from platform adoption and application, to perspectives on innovations like robo-advice and pension dashboards.

In this, the third report in the series, we take a closer look at the clients that seek financial advice, who they are, the challenges they're facing, and what they tell advisers they're most worried about when it comes to their wealth.

Earlier reports in this series have highlighted a recent boom in the popularity of advice. Our research reveals that three quarters (76%) of advisers are expecting to serve a growing number of clients in the coming year. With people now able to access their pension pot from age 55, and with savers having to shoulder more responsibility for securing their own financial wellbeing, they are increasingly looking to financial advisers for support. Indeed, four in five (83%) advisers believe that 'at retirement' advice is set for growth.

Even before retirement, the pension freedoms appear to have had a positive effect on the extent to which people are engaged with planning for their own retirement, especially as they now face more choices over their long and short term savings options. Clearly with choice comes complexity and people want to be sure they are doing what's best for their financial futures, while also trying to navigate the confusion that comes with frequent changes to pension and investment rules and allowances.

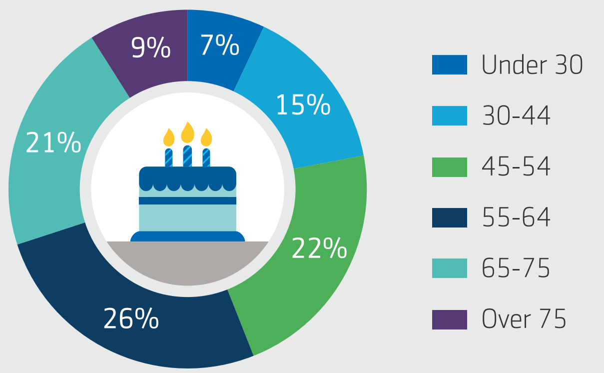
Furthermore, with the digital revolution now well underway, we're seeing a new generation of technologies help people track and manage their money in a whole range of innovative ways. Against such a backdrop, it's important to understand the type of people opting to take advantage of financial adviser expertise, as well as the worries they have about their financial future. By doing so, advisers can ensure they have the right tools now and in the future to do the job.

In addition to the increasingly complex world of pensions and ISA options, people are having to navigate a volatile and sometimes intimidating economic and political environment. Inflation protection, liquidity, investment risk, all need to be taken into account. It is here that an adviser adds huge value, providing peace of mind as well as insight into securing future client wealth.

The diversity of clients

As people have more wealth to manage, and approach the age at which they must decide how to make use of their pension savings, they are naturally more inclined to seek professional advice to help them navigate important financial decisions. So it won't come as a surprise that the majority (56%) of advised clients are over 55 years old, already old enough to qualify for the pension freedoms. Those aged 45-54 make up around 22% of the average adviser's client base, while those aged under 45 make up the other 22%. Just 7% are turning to financial advice under the age of 30.

Client age brackets



The average age of clients is relatively consistent, regardless of the size of the adviser firm, but sole adviser firms do appear to have a slightly greater proportion of younger clients. 24% of sole advisers' client base is aged between 45 and 54, compared to 22% of those firms with six advisers or more. They also have a greater percentage of those aged between 30 and 44 (16% vs 13%).

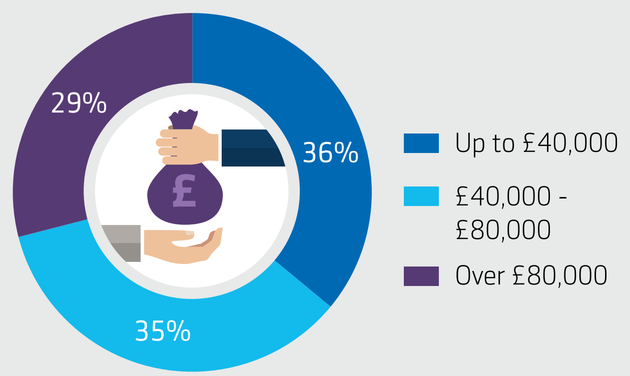
Receiving good financial advice at a young age not only helps encourage savings behaviour, but it is also hugely beneficial to savings in the long term. To best serve this growing cohort, providers and advisers alike need to be creating tailored and targeted saving schemes on accessible and intuitive digital platforms.

But our research suggests that advisers, perhaps understandably, remain largely focused on older generations. Those that traditionally make up the greater part of their client base. Only one in ten (11%) said that they deliberately target younger people so they understand the need to invest early and even fewer actively work closely with providers to help them engage younger people (4%).

Most people aged under 45 may not yet be ready to talk about retirement, which goes some way to explain why a third of advisers find it a real challenge to reach people under the age of 45. But according to the ONS[1], earnings peak at age 38 in the UK, so there is a strong case for advisers to help younger individuals on the way to achieving, or even simply setting, their long-term financial goals.

Looking at the income range of clients, it is clear that the demand for advice is coming from those across the spectrum. More than a third (36%) of advisers' clients earn up to £40,000 per year, with a similar percentage (35%) earning £40,000 – £80,000. The proportion of clients toward the top of the income scale is also similar, with 29% earning above £80,000. This includes the 5% of clients that earn more than £250,000 per annum.

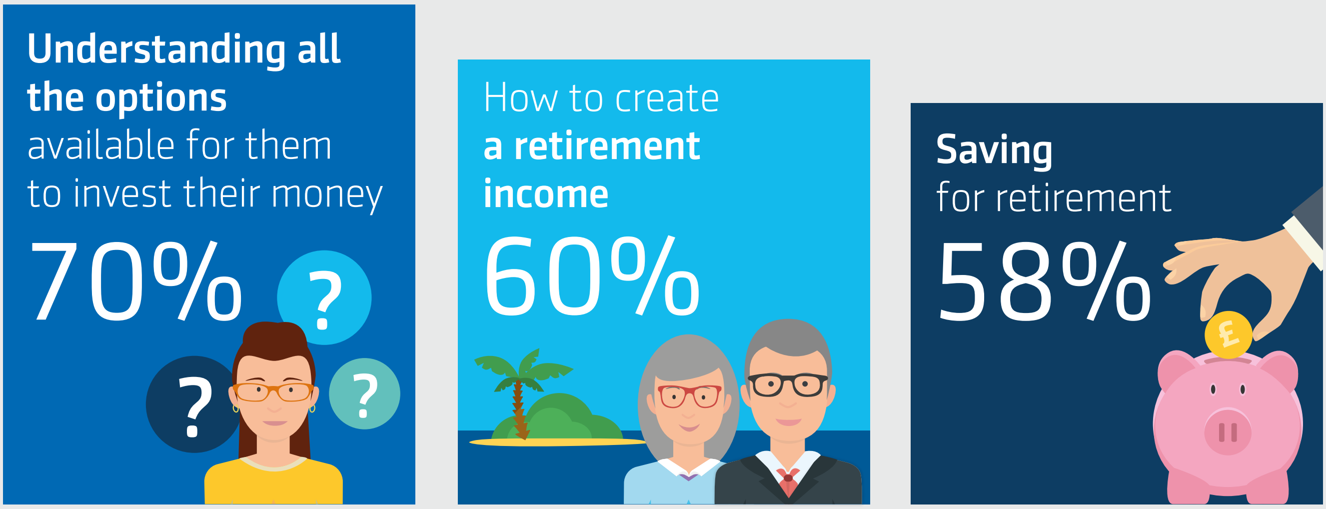
Client wage brackets



The findings reveal that sole advisers tend to service those with a more modest income, having a greater proportion of clients at the lower end of the income scale compared to their larger competitors. More than half (56%) of sole advisers' clients earn between £20,000 and £60,000, compared to two in five (41%) for those firms with six or more employees. At the other end of the scale, just 15% of sole adviser clients earn more than £100,000 each year, half as many (29%) as larger firms with six or more advisers.

[1] The Daily Telegraph, In your 40s with 'peaking' earnings? Here's your perfect financial plan, 22nd March 2016

Top three most common challenges facing clients



Shifting client demand

According to our findings, there are two key challenges those seeking financial advice would need to address. Primarily, clients need help understanding all the options available for them to invest their money (70%), and secondly, they want support in knowing how to create a retirement income (60%). With savings exposed to historic low interest rates many people are looking for alternatives to cash. Both challenges are indicative of the times we live in, when the number of investment opportunities grows almost every day, and the retirement income market has been opened to an unprecedented degree.

Both of these challenges are currently driving demand. When asked specifically in which areas they expect to see the greatest change in demand over the next 12 months, four in five (83%) advisers believe that 'at retirement' advice is set for growth, of which more than a quarter (29%) expect significantly more demand.

As well as this, three quarters (73%) of advisers anticipate an increase in demand for DB to DC pensions advice in the next 12 months, with 69% expecting more demand from clients for advice around pension consolidation. While predicting greater demand in these areas over the coming year, advisers rank them low on the list of most common challenges clients approach them about. Just 4% of advisers see the decision to consolidate or transfer pensions as the most common challenge their clients ask about, while 28% registered the service in the top three challenges.

While 'at retirement' advice is singled out as the biggest growth area, the most pressing challenge facing clients remains the need for help navigating all the investment options available to them. 7 in 10 advisers see this as a top challenge facing their clients. It's also an area where demand is expected to grow. Over half (54%) of advisers anticipate an uplift in demand over the coming year, with 1 in 10 expecting a significant spike.

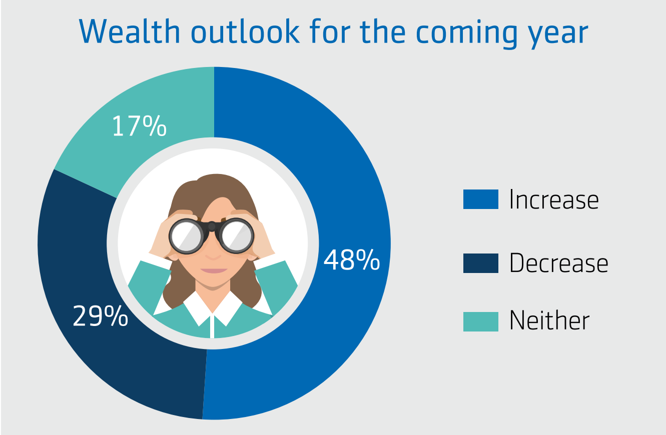
More than half (52%) of advisers expect an increase in demand for inheritance or estate planning, an issue that's seen as a top three client challenge by one in four (24%) advisers. Depending on how the Government chooses to tackle the issue of intergenerational fairness, this could soon become a more pressing client need.

While the issue of care in later life is very high on the political and media agenda, only one fifth (21%) of advisers see provision as one of the three most common challenges clients approach them to discuss.

Wealth outlook

Despite a heightened level of economic and political uncertainty, advisers are not currently concerned about client wealth being negatively impacted by the current investment environment. When asked about their expectation for client investment returns over the next 12 months, half of advisers (48%) expect an increase; significantly more than the 29% that expect a fall in returns.

Advisers estimate that, of their clients who have retired recently, over half (56%) were happy to have their retirement savings fully exposed to the stock market via drawdown. Less than one in five (18%) were prepared to give up control of their savings in favour of a guaranteed income solution such as an annuity. More than half of advisers (54%) said that flexibility was the most important retirement strategy for clients, with a third (33%) identifying risk reduction as being most important.



Conclusion

The growing range and variety of saving and investment options, not to mention new tax incentives such as the increased ISA allowance and the unrelenting pace of regulatory change, means that advisers are being tested like never before. What's more, at the same time as investment and retirement income options are proliferating, client demand is also growing, both for help choosing investment options, as well as for 'at retirement' advice. The vast majority of advisers expect demand for both services will grow over the coming 12 months. For advisers tailoring their advice to a range of different audiences, the breadth of advisory skills and range of tools that have emerged from technological advances has become quite staggering.

'At retirement' advice is understandably the main growth area for demand, and while those that are confident in their own ability to navigate the savings and investment landscape may want to go it alone, the decisions made at this juncture are absolutely critical, and really should be made with the help of professional financial advice.

Clearly advisers are alert to the growing demands of those approaching retirement, but it's concerning not to see more emphasis on social care. True, this may not be a challenge clients are approaching advisers about today, but all signs suggest that long term care is a ticking time bomb that should be addressed as part of the retirement planning process. According to Age UK[2], only one in seven of us will be free of any diagnosed long term health conditions by the time we reach our early eighties, and eighty per cent of us will be living with at least two. As people are put in the position of taking more responsibility for later life care, it is imperative that this plays a key role in long term financial planning.

The client landscape for advisers is going through a revolution, but a very positive one. While this is largely due to the increasing levels of personal responsibility thrust upon savers, a volatile economic environment and technological innovation are both introducing new opportunities for financial advice. Against such a backdrop, advisers have many new avenues to demonstrate their value.

[2] Age UK, Briefing: Health and Care of Older People in England 2017, February 2017