



Dependence on capital growth mindset when advising income-seeking retirees risks triggering suitability alarm bells

- NextWealth report reveals slow adoption of retirement-specific adviser tools and processes
- Traditional “risks to capital” approach failing to address retirees’ key “risks to income”
- Future regulation likely to reinforce retirement advice best practice and consistency
- Advice firms applying a capital growth mindset to clients at and in-retirement are likely to be targeted by tougher regulation to improve management of key later life financial risks

A new report by the specialist research and consultancy practice NextWealth shows that, while the risk-profiling and risk-management processes used for clients in the accumulation phase of life are generally robust, many firms are leaning on these same processes when advising clients in the decumulation phase when they face different and more complex risks.

“Advice ecosystems developed to manage risks to capital growth are not suitable at the point the primary risk becomes the sustainability of income,” said **Kavi Myladoor, Retirement Income Director – Retail at retirement specialist, Just Group.**

“This research by NextWealth suggests many retiring clients are shoehorned into the processes designed for savers rather than spenders. The use of tools and processes specifically designed to manage retirement risks – sequencing risk, longevity, income risk, etc – is far less common than could be expected.”

The report from NextWealth – [‘Guarding Financial Futures’](#) – reveals that most advisers use the same profiling tool and set of questions for clients in accumulation and decumulation and that 56% take a manual approach to managing risk around income generation, compared to about a third who use a tool.

“Where risk profiling is not picking up key differentiation between capital and income risk and advisers need to fill in the gaps manually, there is far more chance of misunderstandings, preconceptions and bias creeping in,” said Kavi Myladoor.

“Currently there is a high likelihood that two clients with similar resources and objectives could receive wildly different retirement recommendations, not only from different firms but from different advisers within the same firm.”

She added that, nearly a decade on from pension ‘freedom and choice’ reforms, one of the focuses of the Financial Conduct Authority’s forthcoming thematic review on retirement advice will be whether firms are delivering consistently suitable advice.

“We should be prepared for the regulator to put more pressure on firms to ensure their approach to savers and spenders is appropriate. The industry needs to get behind minimum acceptable standards for retirement advice in key areas.

“There are some basic things which perhaps should be mandated, such as the use of retirement specific fact-finds and risk-profiling, stochastic rather than deterministic modelling to better reflect real world probabilities and more personalisation taking into consideration lifestyle factors and medical conditions.

“This research shows that many firms have already developed their advice processes to deliver different approaches for spenders and savers. We suspect the conduct regulator may well seek to enforce the spread of this ‘best practice’ much more quickly and more widely.”

A copy of the report can be downloaded [here](#). Kavi Myladoor will be speaking at [The Investment Network Retirement Meeting](#) on 18/19 January.

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Notes to Editors

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