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CLIENT GUIDE: ANNUITIES VS DRAWDOWN

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Annuities are old hat and drawdown is the new default. Simple… or is it?

I have argued for a long time that there is a strong case for both. The key question for most people is what combination should they have? Indeed, one of the many positives of the new pension freedom is that Financial Advisers and their clients should no longer be faced with a black and white choice between one and the other.

At the time of writing, more than 100 days into the world of freedom and choice, I am not sure how far we have moved down the road to blended solutions. There are some encouraging developments. For example, insurance companies, such as LV=, have made good progress in this area and support advisers with online tools to help them understand the case. Other groups are readying launches of new products that will offer a combination of the two.

However can blended solutions become the new norm, though? I hope so. There are three things the industry needs to do first:

- Educate us about the advantages of not putting all of our eggs in one basket.
- Provide advisers with the tools and skills to put blended solutions at the heart of the advice process.
- Encourage providers to innovate and develop new solutions.

Everybody talks about educating you the client, but most miss the point: with pensions it is not just about telling people about their options but more about engagement. If rule number one is that people should not invest in things they do not understand, then it is imperative they are involved to the extent that they do.

For me, the “skills of the trade” include foresight, relationship skills, risk management, product knowledge, and technical and tax expertise. Your Adviser will need all of these skills if he/she is to recommend the best solutions for you. However, if I were to pick the most interesting, it would be risk management.

Why do so many advisers and their clients either take too little or too much risk? The concept of taking too much risk is perhaps easier to understand but taking too little and being locked into low yielding assets for a lifetime is not sufficiently discussed. This begs the question: what is the optimum level of risk? And this is where a combination of annuities and drawdown can help.

The purist in me asks why we need combination products when it is possible to purchase the best annuity and invest in the most appropriate drawdown separately. On the other hand, the realist in me says that, just as with fixed term income plans, a packaged solution for clients with modest sized pension pots is the best solution.

The day that everybody gets the optimum retirement income solution may be a long way off but a move towards blended solutions should take us one step closer.

Talk to your Succession Group Financial Adviser for more information and to learn how LV= may be able to help with your blended retirement solutions.

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