

# Adviser Edge Workbook

For those who make business  
decisions and give financial advice



# Programme overview

	Module	Learning objectives
For those who make business decisions	Managing your business risk	<ol style="list-style-type: none"> <li>To be able to identify the new risks to your business and assess how important they are</li> <li>To successfully make a plan to mitigate these risks</li> <li>To understand how a Centralised Retirement Proposition (CRP) can help with your risk mitigation strategy</li> </ol>
	Client segmentation and defining your proposition	<ol style="list-style-type: none"> <li>To understand segmentation and why it's important for your business</li> <li>To understand how the new pension freedoms have affected the needs of retirement clients and how that impacts your proposition</li> <li>To be able to successfully segment your own client base and create appropriate propositions for each segment</li> </ol>
	Cost of service delivery	<ol style="list-style-type: none"> <li>To understand how the pension freedoms have changed the demand for advice</li> <li>To be able to work out how much capacity your business currently has</li> <li>To be able to set your charges at a level that suits your business and your clients</li> </ol>
For those who give financial advice	The value of advice	<ol style="list-style-type: none"> <li>To understand what the pension freedom changes are and what they mean for your clients</li> <li>To understand how these freedoms have impacted the advice process</li> <li>To be able to demonstrate the value of your advice to your retirement clients</li> </ol>
	Completing your fact find	<ol style="list-style-type: none"> <li>To understand how the fact find phase of the advice process differs for retirement clients and may have changed since pension freedoms</li> <li>To understand the information you need to collect in order to implement the 3 policies of a CRP</li> <li>To be able to successfully amend your own fact find process for your retirement clients</li> </ol>
	Making your recommendations – Investments	<ol style="list-style-type: none"> <li>To understand the differences between investing for saving versus retirement</li> <li>To understand the different investment strategies that can be utilised for clients in retirement</li> <li>To understand what an investment policy is and how to implement one for your business</li> </ol>
	Making your recommendations – Withdrawals	<ol style="list-style-type: none"> <li>To understand how income needs and goals may differ throughout a client's retirement</li> <li>To understand the key considerations around taking an income in retirement following the pension freedoms</li> <li>To understand what a withdrawal policy is and how to implement one for your business</li> </ol>
	Making your recommendations – Tax	<ol style="list-style-type: none"> <li>To understand how tax planning has changed as a result of the pension freedoms</li> <li>To understand what a tax policy is and how to implement one for your business</li> <li>To be able to articulate the value of a tax policy to your retirement clients</li> </ol>



# Managing your business risk

## Self-assessment (you can check your answers at the back of the booklet)

1. Name one of the benefits of having a risk management strategy in place

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2. Which of these is not one of the four categories of risk?

Financial risks	<input type="checkbox"/>
Managerial risks	<input type="checkbox"/>
Operational risks, including admin and compliance risk	<input type="checkbox"/>
External risks	<input type="checkbox"/>

3. What are the three pillars of a CRP?

1/

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2/

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3/

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## Client segmentation and defining the proposition

### Self-assessment (you can check your answers at the back of the booklet)

1. Name one of the ways in which effective segmentation can help your business?

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2. When considering your retirement clients, what is the difference between essential, discretionary and desirable spending?

Essential spending:

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Discretionary spending:

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Desirable spending:

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3. Which of the following should you consider when defining the propositions you will offer each of your segments?  
(Tick all that apply)

How profitable they will be to you

Their stage of life

Whether you should offer them any specialist services

How much they will be willing to pay for advice



# Cost of service delivery

Self-assessment (you can check your answers at the back of the booklet)

1. Explain the 'ball park' theory

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2. What are the 4 steps to determining the cost of service delivery?

Step 1/

Step 2/

Step 3/

Step 4/

3. Which one of these cannot be adjusted if your chargeable rate is too high or low?

Staff remuneration

Target revenue/cost base

Profit margin

Chargeable hours available



# The value of advice

## Self-assessment (you can check your answers at the back of the booklet)

1. Name one key benefit of using your CRP to communicate value

For your business:

For your clients:

2. Which of these is not an option open to clients as a result of the new pension freedoms?

They can transfer the whole value of their pension fund into a Drawdown Pension

They can take all of their benefits as a lump sum, known as an Uncrystallised Funds Pension Lump Sum (UFPLS)

They can convert their retirement fund in stages

They can buy an annuity, either through their current provider or from another provider with a better rate

3. What do the following policies aim to do?

Investment policy:

Withdrawal policy:

Tax:

All 3:



## Completing your fact find

Self-assessment (you can check your answers at the back of the booklet)

1. According to the latest research, what do clients most value about their financial adviser?

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BONUS POINT: What percentage of clients gave this answer?

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2. Name three of the risk factors you need to consider when giving advice to clients in retirement?

1/

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2/

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3/

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3. Which of these questions would be relevant during a fact-find with retirement clients? (Tick all that apply)

How do you want to live in retirement?	<input type="checkbox"/>
Are there any once in a lifetime dreams you'd like to fulfil?	<input type="checkbox"/>
How much risk do you feel comfortable with?	<input type="checkbox"/>
What does retirement mean to you?	<input type="checkbox"/>
How healthy are you?	<input type="checkbox"/>
Do you wish to leave an inheritance?	<input type="checkbox"/>



## Making your recommendations - Investments

Self-assessment (you can check your answers at the back of the booklet)

1. Name three of the key requirements of an investment strategy

1/

2/

3/

2. Which of these is not a challenge for clients investing in retirement?

The client's main objective is to get the best investment returns which may not tie in with their attitude to risk

The client has many goals with different time horizons and an uncertain total time period

The client's capacity to earn and add to the pot is lower

The portfolio may need to support ad hoc lump sum withdrawals to cover major purchases

3. Explain the concept of 'pound cost ravaging'



## Making your recommendations - Withdrawals

Self-assessment (you can check your answers at the back of the booklet)

1. What is the key benefit of a withdrawal policy?

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2. Which of these is not a key step to implementing a withdrawal policy?

Being clear on the client's minimum and preferred income levels

Discussing how income levels may change over time

Explaining how investment conditions may impact income

Setting out exactly how much income a client will receive throughout their retirement

3. Explain the concept of the 'retirement smile'

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## Making your recommendations - Tax

### Self-assessment (you can check your answers at the back of the booklet)

1. Name one of the key benefits of implementing a tax policy

For your business:

For your clients:

2. Which of these is not a key step to creating a tax policy?

Consider inheritance implications

Maximise tax allowances

Review investment options

Ring-fence emergency funds

3. In what circumstance would it not be advisable to exhaust a client's tax free cash allowance by age 75?

# Answers

## Managing your business risk

1. There are 3 answers to choose from:

- You can recognise risks sooner
- You can be clear about responsibility and accountability when these risks arise
- You can identify any new opportunities these risks have uncovered

2. Managerial risks – the missing category is strategic risk

3.– Investment

- Withdrawal
- Tax

## Client segmentation and defining the proposition

1. There are 3 answers to choose from:

- Helps you to understand different clients' needs and goals so that you can better shape and structure your advice
- Allows you to create repeatable processes which can be applied to the majority of your clients, helping you to deliver consistent outcomes
- Lets you see which clients you can afford to support with a tailored service and which you need to give a light-touch service or none at all

2. Essential spending: needed to live

- Discretionary spending: needed for 'everyday' treats, such as meals out
- Desirable spending: needed for 'bucket list' activities, such as holidays

3. All of the suggested answers are correct

## Cost of service delivery

1. Ensuring your proposition lines up with your client's idea of satisfaction means they will be willing to pay more for it provided it is not too high/ in their 'ball park'

2. – Establish the hourly charge rate

- Establish the cost of service delivery
- Check the capacity of the business
- Check, review and refine regularly

3. Staff remuneration (you must pay staff as per their contracts so this cannot be flexed)

# Answers

## The value of advice

1. For your business. There are 6 answers to choose from:

- Differentiate your business
- Allowing you to select the clients you want to work with
- Offering propositions that suit both your business and your clients
- Ensure the sustainability of your business by building long lasting, profitable relationships
- Reduce time and cost spent on administration by improving the efficiency of processes
- Reduce time and cost spent reassuring clients by setting their expectations

For your clients. There are 4 answers to choose from:

- Setting realistic expectations so there are no negative surprises
- Aim to help them meet their key goals
- Help them to understand the complexity associated with drawing income from investments – they can't do this on their own
- Understand how your processes and practices help manage risks

2. They can buy an annuity, either through their current provider or from another provider with a better rate – this has always been an option, even before the pension freedoms were announced

3. – Investment policy: sets client expectations and reinforces the suitability of your recommendation, in line with your firm's 'in retirement' investment proposition

- Withdrawal policy: helps clients to understand that their income is not certain and will change in the future
- Tax: explains the complexities of cross-product tax-efficient withdrawals to clients in a clear and methodical way
- All 3: instils confidence in adviser firms that consistent advice processes are being followed

# Answers

## Completing your fact find

### 1. Feeling understood

Bonus point: 75%

### 2. There are 11 answers to choose from:

- Their health
- If their pension products offer any guarantees
- The ongoing needs of their partner/dependants
- The effect of inflation
- Whether they have considered all options
- Whether they will have a sustainable income in retirement
- What the tax implications are
- Whether they understand the charges involved
- The impact on any means tested benefits
- Any debt they have
- If they are aware of pension scams and what they look like

### 3. All of the suggested answers are correct

## Making your recommendations – Investments

### 1. There are 4 answers to choose from:

- Flexible enough to be able to deal with changes in client circumstances and the market environment
- Aligned to the various goals that clients have in retirement
- Aware of the extra risks that clients face in retirement
- Tailored to individual client goals and managed on an on-going basis

### 2. The client's main objective is to get the best investment returns which may not tie in with their attitude to risk – this is more of a concern in accumulation

### 3. Retirement involves withdrawing a fixed amount at regular intervals. If the value of your client's investments drops then the fixed amount being withdrawn becomes a larger proportion of their overall total pot – and they'll have to sell more units or shares to meet the withdrawal. This means that it's harder for the remaining assets to recover from a fall. Effectively they've locked in their investment losses.

# Answers

## Making your recommendations – Withdrawals

1. It provides clear documentation of how you are going to meet the client's goals by flexing their income over time
2. Setting out exactly how much income a client will receive throughout their retirement – this is incorrect as income may fluctuate depending on market conditions
3. The retirement smile illustrates the changing needs of people in retirement over time. When they first retire they are likely to need more income to clear debts/tick off some 'bucket list' items; then as they get older they become less able to do as much so income needs will drop. Finally, as they get much older, the cost of care/assisted living may be required leading to a rise in income requirements. On a graph, this looks like a 'smile' shape.

## Making your recommendations – Tax

1. For your business. There are 3 answers to choose from:

- Clearly demonstrate the value of your advice
- Improve efficiency by having repeatable processes
- Reduces business risk

For your clients. There are 3 answers to choose from:

- Minimising tax payable on withdrawals by maximising allowances
- Limiting the effects of tax on future investment returns
- Future proofing their retirement strategy

2. Review investment options – this would be managed as part of your investment policy

3. If the client doesn't need the cash and IHT is the primary concern

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