Summary
• More providers are reviewing their at-retirement product offerings, with greater interest in smoothed funds and annuities as a result.
• Flexibility is now key to at-retirement product design, to cater for both custom income needs and account for later-life health issues.
• There are calls for providers to play greater role in saver education, but questions are raised over how much this can tackle saving shortcomings.

How at-retirement products are changing

With people retiring in different ways, and living longer, how are providers ensuring at-retirement products stay relevant?

It's a well-known fact that retirement is changing and for many is no longer a binary moment. This has brought at-retirement products into focus as providers recognise change is required to make these both relevant and beneficial to those retiring. According to Standard Life managing director of individual retirement, Claire Altman, more is now being asked of these products.

"Until relatively recently it was not possible both to work and to take a retirement income at the same time," says Altman. "However the decline of DB and the changes to working patterns has put a coach and horses through this kind of thinking, so we need to completely revisit the way we think about 'at-retirement' and consequently the 'at-retirement period."

What at-retirement innovation looks like

Numerous drivers are pushing providers to amend their at-retirement range. LCP partner, Steve Webb, sees a range of reasons for this, including the expected legal requirement on trustees and others to have a default post-retirement journey, a gradual increase in DC pot sizes at retirement and the continued impact implementation phase of pension freedoms.

"We are currently seeing most of the big providers reviewing their post-retirement proposition," adds Webb. "I expect the offerings in two to three years' time to be quite different to what we currently see."

Consequently, an area more providers are exploring is smoothed funds, strategies designed to provider steadier long-term growth. They do this by holding a range of different investments, balancing out the ups and downs of the market.

"The renaissance of smoothed managed funds, of one kind and another, is an interesting development we're seeing from a handful of providers," comments The Lang Cat director of public affairs, Tom McPhail. "It's all about hitting the sweet spot in between risk and growth assets on the one hand, and on the other optimising security of income and peace of mind."

Altman also appreciates what smoothed funds can bring, pointing out that they can help people remain invested during periods of high volatility. This, she explains, means those with otherwise risk-averse investment selections can still benefit from positive equity market movements.

"And when people do finally stop working entirely, or cut down their working hours, the case for having an element of guaranteed income has never been stronger," adds Altman. "Supported by strong annuity rates, this has led to an increase in annuity sales over the last year, which demonstrates how people are looking for certainty from retirement income."

At-retirement products don't just have to change to support changing retirement patterns, but also reflect how people's finances have changed. Royal London director of policy, Jamie Jenkins, points out that with people having more wealth tied up in their house than in savings, and a growing need across society for later-life care, at-retirement products must also take this into account.

"Many people will have insufficient pension savings, but a large amount of housing wealth that they could use to part-fund their retirement, but equity release remains a very distinct advice activity," says Jenkins.

"No-one wants to have to set aside money for care needs, but invariably some people will need to find the necessary funds when the need does arise. This is a very challenging area to consider when there is still no coherent funding policy from the government, and the costs could be catastrophic."

Design necessities

With more criteria to satisfy, designing a fit-for-purpose at-retirement product is easier said than done. Importantly, this is also about giving retirees more options, according to Webb. He points out that some providers have recognised that, early on in retirement, people can have little idea of what they'll need in terms of benefits. Therefore, he says product design must reflect this period of flux.

"This tends to imply greater flexibility at/around retirement, and not 'locking in' to something at once," says Webb. "But there is also a need to recognise that people may have limited ability/inclination to manage an investment pot for decades post-retirement, so there will need to be good defaults, and a recognition that attitudes to risk may change over retirement."

Similarly, Jenkins highlights the importance of supporting coinciding financial needs. He explains that retirees will often want to draw an income from their product while also making gifts with their legacy in mind.

"In servicing this need, the biggest decision will be whether a client wants to stay in drawdown and manage their own longevity risk or secure an income," says Jenkins. "Products that enable a blend of both are likely to be most appealing, as retirees value certainty of income to allow them to plan, and flexibility or income to allow them to adjust to the unplanned."

Growing awareness of dementia and other later-life cognitive issues is also impacting how providers design these products. Such health issues can have a significant impact on a person's financial needs, and who oversees their assets, with experts arguing this is a subject that should be addressed earlier on.

"Cognitive impairment and vulnerability in general can be particularly challenging in retirement, especially as it is not always obvious when someone is vulnerable," says AJ Bell director of public policy, Tom Selby. "But communications and good data hold the key to helping people in all circumstances make the most of their retirement, rather than new products."

In agreement is McPhail, who points out that firms have done a lot around protecting vulnerable customers, ensuring they have systems and processes to accommodate them.

"I'm not sure to what extent that includes actual product design," he caveats, "I think it's more about the communication protocols."

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Working with financial planning

Financial advice adoption is still low in the UK, but providers understand that they are not creating at-retirement products in a vacuum. The person who needs the product will have numerous needs and wants to satisfy in retirement and are more than likely to have questions as they approach this period.

With concerns around the public's general lack of awareness, or even apathy, towards retirement planning, questions are raised as to how at-retirement products could play a bigger role in such a crucial period. However, Selby does not see product providers having to account for this challenge as well in their at-retirement designs.

"Rather than obsessing over new products, we need to focus on helping people understand the choices in front of them and ultimately navigate a path that suits their needs," he says. "Increasing access to advice and improving the usefulness of guidance are central to this, which is why the FCA and Treasury's Advice/Guidance Boundary Review is so important."

Crucially, in this review the regulator is interested in how pension providers – alongside other FCA-authorised firms like banks, insurers and asset managers – can offer 'non-advised support'. McPhail agrees the review is an important factor in how it could influence product design: "Potentially firms will be given more scope to interact with customers and actually have a dialogue with them around their plans. Arguably this should go further, given the ongoing challenge the Money and Pensions Service faces in actually connecting with individuals."

A key challenge for pension providers is the fact many people are not saving enough for retirement, with Standard Life data showing 36 per cent are in this bracket. Altman says this is compounded by longer life expectancies and although product innovation can "offset some challenges," there are limits to what providers can do with these products. According to Altman, this means the focus for future generations' retirement savings must be tackled much sooner in life and before the general at-retirement phase is reached.

"This must also be supported by advice models that work for the market and make it easier for customers to get the best outcomes in retirement," she says. "The government and regulators also have a role to play, and there are consultations underway from both the FCA and DWP to help drive action that will create the framework necessary to support people as they move from saving to accessing their pension."

Written by Jon Yarker, a freelance journalist