

# The value of personalised advice in the UK

This publication builds on Vanguard's 2022 paper, *The Value of Personalized Advice*<sup>1</sup>, which explores Vanguard's methodology for quantifying advice for individual clients within the US tax and financial planning landscape. It also follows our research brief, *The Value of Personalised Advice (UK)*<sup>2</sup>, which provided a broad overview of our earlier findings and their application to UK investors. In this paper, we explore in depth the value of advice for individual clients in the UK.

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<sup>1</sup> Weber S, Costa P, Hassett B, Padmawar S, Yarwood G: *The Value of Personalized Advice (US)*: 2022.

<sup>2</sup> *The Value of Personalised Advice (UK)*: 2023.

## Executive summary

- Most investors can derive substantial value from reasonably priced financial advice that helps them execute high-value life decisions consistent with their long-term goals and aspirations. Advisers and investors, however, have long struggled with quantifying the value of advice. Perceptions of value are often anchored in investment performance and can underestimate the value of financial planning interventions.
- Vanguard has built the Vanguard Financial Advice Model (VFAM)<sup>3</sup> which has now been calibrated to reflect investors in the UK. This allows us to quantify the incremental value that advice can provide to an individual investor's financial plan relative to their current strategy, considering a wide range of possible future outcomes.
- Using the VFAM, we quantify the total value of advice by calculating the additional return, in basis points (bps), it would take for an individual investor's current financial strategy to provide an equivalent range of outcomes to the advised financial plan. We also quantify this value as a "windfall-equivalent amount".
- To demonstrate our model and framework, we present six case studies showing how advisers can generate significant value for individual clients using a range of typical advice interventions for UK investors. Across the case studies, we see the total value of advice net of fees ranging from 60 bps to 355 bps annually<sup>4</sup>. The actual values of these interventions to an investor could be well above or below this range based on the investor's personal circumstances and the specific advice interventions considered.

<sup>3</sup> Available to Vanguard internally only.

<sup>4</sup> Source: Vanguard. The 'total value of advice net of fees' is after estimated annual advisory fees and portfolio expenses. In addition, initial advice fees have been considered and incorporated.

## Introduction

What is the value of financial advice? This question is of utmost importance to financial advisers, investors and the finance industry in general. By putting a number on the value of their advice, financial advisers can surface and focus on the highest-value advice interventions – which helps them demonstrate their value to clients and, in turn, retain and attract more business.

Unadvised investors can learn whether financial advice is right for them. Advised investors can benefit from knowing how advice adds value beyond the fees they pay their advisers. Finally, with the proliferation of hybrid and robo/digital adviser offers, the financial advice industry can be cognisant of its different cost-to-serve models according to the value of the different services they provide.

### The role of Consumer Duty

Consumer Duty, the standard introduced by the Financial Conduct Authority in the UK when serving retail clients, came into force in 2023. One of its four required outcomes is around price and value<sup>5</sup>, making it additionally important for advisers to be able to demonstrate the value they add to investors beyond the price they charge for their services. Our research is designed, in part, to help advisers better understand and articulate the value they provide to their clients.

Historically, the financial advice industry anchored on investment performance as the main source of advice value. In 2001, Vanguard introduced a concept called Adviser's Alpha, in which we outlined how advisers could add value through relationship-orientated services, rather than solely focusing on portfolio management (Bennyhoff and Kinniry, 2018). Since then, we have expanded on these concepts, and have been joined by other researchers<sup>6</sup> who have taken

various approaches to defining and measuring the value that advisers create beyond just investment performance.

In this paper, we expand on the previous literature by introducing a new model of advice value, along with an improved process for measuring the value of financial advice for individual investors.

First, we present a four-part framework that identifies four main sources of advice value: financial value, portfolio value, emotional value and time value. Financial advice can provide value in a multitude of ways, whether delivered by human advisers, digital platforms or investment product solutions.

Some examples of services include:

- Being a source of professional expertise, experience and judgment for investors when they need it.
- Helping investors uncover their goals and setting up financial roadmaps for meeting those goals.
- Managing portfolios to maximise potential returns while controlling for risk and minimising taxes.
- Preparing investors to deal with the possibility of unpredictable outcomes that may have low probability but catastrophic effects (early death, for example, or other life events that can change income, savings or retirement dates in ways that might lower the chances of maintaining a desired lifestyle).
- Keeping on top of an investor's changing life and needs and making sure that plans stay on course.
- Saving investors time by performing otherwise time-consuming tasks on their behalf.
- Offering emotional support and guidance to help investors stay motivated and provide peace of mind.

<sup>5</sup> Financial Conduct Authority Handbook as at 31 July 2023, PRIN 2A.4.

<sup>6</sup> See Blanchett and Kaplan (2013, 2018), Finke (2013), Grabel and Chatterjee (2014), Kinniry et al. (2019), Pagliaro and Utkus (2019), and Warschauer and Sciglimpaglia (2012).

Next, we present a methodology for evaluating and surfacing high-value advice interventions in the context of an individual investor's financial plan using VFAM<sup>7</sup>. The model is currently being applied across a range of Vanguard research and products globally.

The model is now configured for the UK investing landscape and takes into account taxes, advice fees, uncertain market and inflation scenarios and life-expectancy variability for the UK. The model uses a *utility framework* to determine how much additional return, or current balance, it would take for a client's baseline strategy to provide an equivalent range of outcomes to an approach that includes a particular set of advice interventions. In later sections, we explain the utility framework and some of the advantages it offers over other approaches.

Finally, we illustrate the personalised nature of advice value by presenting six hypothetical case studies that aim to cover a broad range of financial planning and portfolio construction issues faced by UK investors. The cases help illustrate how the value of advice varies substantially among individual clients and the importance of tailoring financial advice to specific needs. Each case study includes a selection of tailored interventions that an adviser can offer. In cases where additional adviser intervention may be warranted, the potential range of added value could be higher than those presented in the case studies.

<sup>7</sup> See Padmawar, Paradise & Wong: A novel approach to financial planning using Vanguard Financial Advice Model (VFAM) (2022).

## A model of adviser value

Previously, Vanguard proposed a three-part framework for understanding the types of value that advisers can provide investors (Pagliaro and Utkus, 2019):

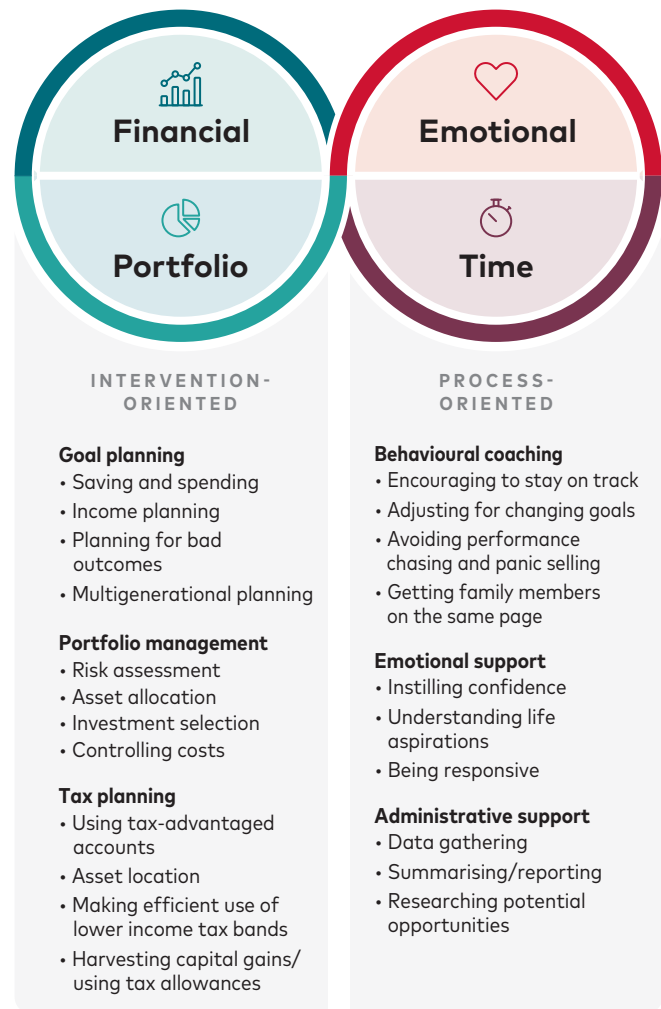
- **Financial value.** Ultimately, investment returns are only important in the service of helping investors achieve specific financial objectives. Advisers can engage in a myriad of financial planning strategies to ensure that investors are prepared to meet the financial challenges that they and their families may face.
- **Portfolio value.** This type of value comes from building a well-diversified portfolio that generates better after-tax risk-adjusted returns net of all fees, suitably matched to the client's risk tolerance.
- **Emotional value.** This type of value comes from helping investors achieve financial well-being, or peace of mind.

For this discussion, we add a fourth type of value to this model:

- **Time value.** This type of value comes from the simple fact that advice providers perform tasks that individual investors might otherwise not have the time, willingness or ability to perform on their own.

Financial and portfolio value are most often delivered by the specific interventions that advice providers recommend for each investor. Emotional and time value are most often delivered by processes by which the advice provider produces, explains and implements those interventions, and ensures that they are followed through. **Figure 1** shows how specific types of advice interventions and activities map to our larger value framework.

**FIGURE 1.**  
**Sources of advice value**



Source: Vanguard.

## Advice as an ongoing process

The key for advice providers who want to maximise the value they provide for their clients is to consider each client carefully and match them to the advice interventions likely to provide them the most value in the most efficient manner. For every client, advisers should consider each of the advice opportunities in the model above. How can advice provide value to this client in each category? Which specific strategies are likely to be the most valuable for each person, given their personal circumstances, objectives and life stage? In many ways, the most valuable task an adviser performs is choosing which advice interventions to bring to each investor for implementation.

The process of advice adds ongoing value when advisers engage in activities like these:

- Following up to make sure that clients are saving as much as they need to.
- Showing clients how their plans give them flexibility to spend and enjoy life.
- Educating and reassuring clients in times of market euphoria or turmoil so that they stay on track.

- Representing their financial interests in conversations with other professionals like insurance brokers, tax advisers or solicitors.
- Recognising opportunities to take advantage of tax-efficient strategies.
- Encouraging clients to stay invested and avoid large cash holdings.
- Coaching clients, when needed, on the elements of financial wellness<sup>8</sup>, including budgeting, emergency savings and debt repayment.

It is the adviser's responsibility to proactively monitor clients and their portfolios to know when those changes are needed. By effectively engaging investors and providing expertise through activities like these, the adviser earns the client's trust, one of the primary drivers of a successful long-term advice relationship (Madamba and Utkus, 2017). Indeed, a key attribute driving emotional value is "to know my financial plan is continuously monitored and updated" (Madamba et al., 2020).

<sup>8</sup> We define financial wellness as the objective financial situation of a person, household or family. It is the ability to meet current and near-term financial obligations and to be on track to meet future goals (see Vanguard's Guide to financial wellness: Costa and Felton 2022).

## The importance of personalisation

The process of giving financial advice starts with a detailed fact-find: gaining an understanding of each client's aspirations for their lives and financial future. Engaging with a financial adviser is more than a financial decision; it is an emotional commitment. Investors who do not feel that their advice provider understands their needs are unlikely to be confident in the adviser's ability to deliver the results they desire. The better an adviser understands the goals and circumstances of each investor, the more confident that investor will be in the quality of the advice given. Understanding the aspirations of the investor and crafting a tailored and personal financial plan is key for delivering value. In fact, we believe that the more personal an advice solution is, the more value it can deliver, at least before fees are considered.

Previous Vanguard research explored investors' preferences for human and digital advice services. The [study](#) found that advised clients prefer human advisers for delivering emotional outcomes and financial planning services. In particular, services requiring a high level of personalisation, such as understanding clients' needs and financial goals, were highly preferred to be delivered by human advisers. On the other hand, technology platforms received high scores for delivering portfolio management services, such as diversification and tax-efficient planning. Overall, investors see a need for both human and digital services working in tandem, making sure that financial advisers use technology to enable them to spend more time deploying their uniquely human value.

## Staying the course

Putting together an initial plan is only the first step in an advice relationship. Clients will only reach their goals if the plan is followed. Most investors are aware of the importance of maintaining a disciplined approach when it comes to investing but may find it difficult to follow through. For example, many investors have the intent to save a certain amount, but life may get in the way. As a result, advisers can add significant value by acting as a behavioural coach. It is up to the adviser to nudge, remind or automate to keep people on track, and to offer words of encouragement when they succeed in doing so. In the same way that a personal trainer can keep people committed to an exercise programme that improves their physical health, an adviser can provide the coaching and encouragement to help people stay committed to improving their financial health.

Extreme market conditions can sometimes offer opportunities for high-value behavioural coaching. When faced with poor market performance, some investors may be tempted to reduce their equity allocation, or even leave the market altogether. On the other hand, when the market is doing well investors may get overly enthusiastic about equity performance, taking on more risk than they should. By dissuading clients from chasing returns or running for cover in

emotionally charged markets, advisers may prevent significant wealth destruction and add a meaningful amount of value along the way. Indeed, recent Vanguard research has shown how abandoning an investment strategy can be costly. During the 2020 period of market volatility, a small proportion of US Vanguard investors panicked, abandoned equities entirely and moved to an all-cash portfolio. Vanguard research found most of these investors would have been better off if they had remained invested throughout the market turmoil (DeLuca and Young, 2020).

Furthermore, industry studies suggest investors commonly receive lower returns than the funds they invest in. Morningstar's annual 'Mind the Gap' study has consistently found a difference between the return of the average US investor versus the average fund's total return, with the average investor typically doing worse than the funds they are invested in (Morningstar, 2024). This so-called behaviour gap – or 'investor-return' gap – is due to the timing of investors' cash flows. While there may be many reasons driving the gap in returns, larger differences are generally taken as a sign of performance chasing. This provides further evidence that there is a role for advisers to act as a behavioural coach, helping clients 'stay the course' with their well-planned investment strategies.



## A model for measuring the value of advice

How do we go about quantifying the value of advice interventions? Certainly, it can be hard to put a monetary number on the emotional and time value components of advice, given the subjective nature of those elements. As a result, our framework concentrates on how we can best quantify the financial and portfolio value advice provided to a specific investor. In the past, attempts to quantify this value have mostly been focused on looking at pieces of the advice framework we detailed above to determine how much value might be produced by a specific advice task.

However, such an approach doesn't offer much insight into how the value of a specific set of advice interventions varies from person to person and situation to situation. As a result, we propose valuing advice based on a three-step process laid out in **Figure 2**.

**Step 1:** This process starts with establishing a baseline model:

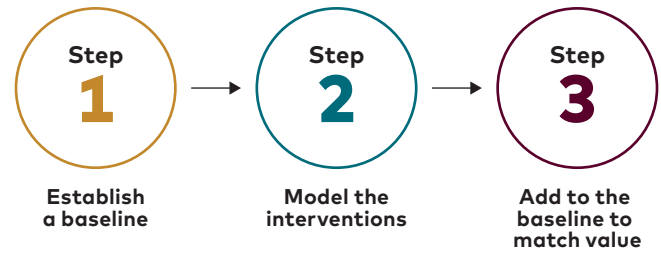
- What will an investor do in the absence of the advice interventions that we want to measure?
- What is the range of potential outcomes that an investor will face if they follow that baseline strategy?

**Step 2:** Once we have established a baseline, we can then change the modelled outcomes by adding the advice interventions we want to value.

- How does the range of potential outcomes improve when we undertake the suggested interventions?

**Step 3:** Now we can return to the original baseline model and start adding a certain return/monetary amount until we reach a distribution of outcomes, using their current approach, that is equivalent to the advised alternative. In other words, we provide a boost to the baseline scenario until our scoring of the range of possible outcomes is equivalent to the scoring of the advised scenario.

**FIGURE 2.**  
To measure value, compare the advised alternative to a baseline



Source: Vanguard.

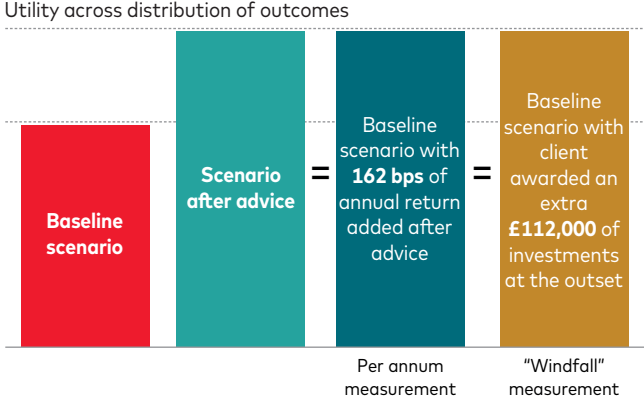
For example, let's assume that a client applies a tax-planning strategy devised by their financial adviser. This allows the client to keep a larger portion of after-tax investment returns across a wide range of market scenarios. We can measure the value added here in different ways, such as:

- What additional return would we need to add to the baseline for the baseline set of outcomes to then be as good as the tax-efficient strategy?
- What additional amount of starting wealth would we need to add to the baseline for the baseline set of outcomes to then be as good as the tax-efficient strategy?

**Figure 3** illustrates this idea. In this case, we measure the value added to the client in two ways: First, as an annual additional return of 1.62% (green bar); and also as an initial “windfall equivalent amount” of £112,000 (gold bar), which is the additional lump sum amount that would need to be added to a taxable account today, as an alternate measure.

In this paper, we will primarily show results expressed as a basis point return amount, since that is the most frequent measure used in other value of advice literature, and also the way that adviser fees are generally assessed. But we will also show a “windfall equivalent amount”, which is the additional lump sum amount that would need to be added to a taxable account today, as an alternate measure.

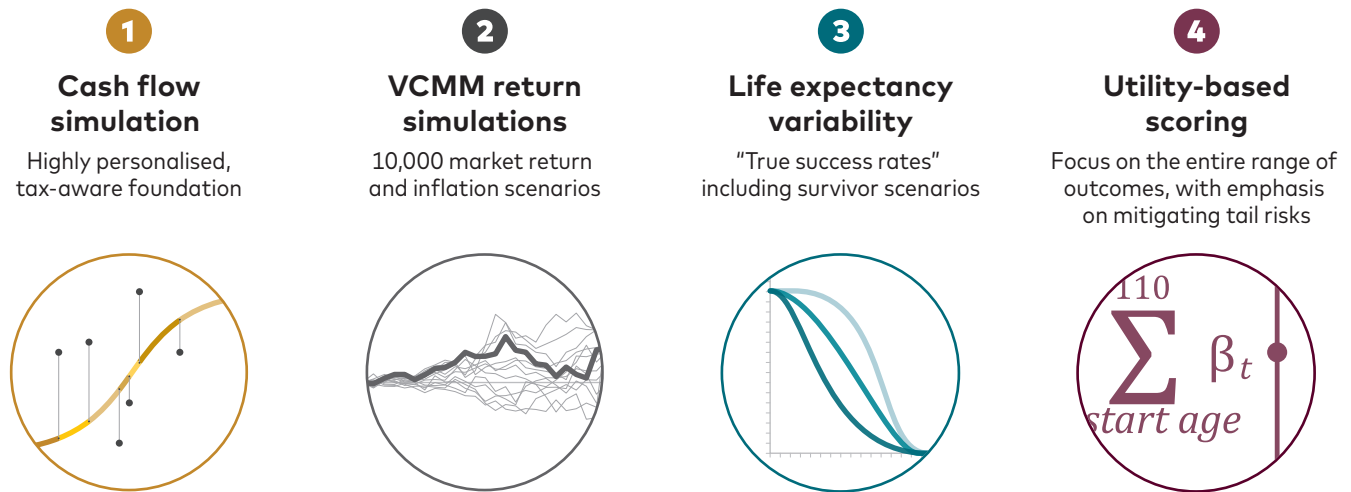
**FIGURE 3.**  
**Ways to measure value using VFAM**



## Using VFAM to measure advice value

To facilitate the advice valuing process, Vanguard has developed the Vanguard Financial Advice Model (VFAM). Figure 4 shows the key elements of VFAM.

FIGURE 4.  
Elements of the Vanguard Financial Advice Model



Source: Vanguard.

### Cash flow simulation model

The advice valuation process we outlined above depends on a cash flow projection model to simulate potential outcomes. Key elements of the VFAM simulation include:

- Detailed modelling of the UK income tax system, including different tax bands and types of taxation.
- Flexible modelling of a wide variety of asset allocation strategies (including glide paths, which offer a planned lifetime de-risking approach), rebalancing strategies and fee structures.
- Ability to model different client behaviour patterns (for example, "this client will move to an all-cash portfolio if they experience a 20% market loss").
- Embedded pension and inheritance calculations.

These features are important because a robust assessment of value requires understanding both a client's baseline (unadvised) situation against the advised alternative. This means that the simulations can't always assume adviser-aided "good

behaviour". For example, many cash flow models automatically assume regular rebalancing (or perfect rebalancing), but some investors wouldn't maintain consistent risk exposure without adviser intervention, so we need embedded behaviour models to account for these behaviour patterns.

These cash flow features allow us to surface and evaluate a host of potential advice interventions, including:

- Increasing or decreasing annual savings amounts.
- Directing savings to different account types.
- Asset allocation and rebalancing strategies.
- Withdrawal order strategies and approaches to spending.
- Increasing or decreasing retirement spending targets.
- Behavioural discipline versus performance chasing and market-timing behaviours.

### **Asset class return simulations**

It is important to understand how cash flow simulations will vary across different financial markets and inflation environments. To do this, VFAM uses 10,000 asset class returns and inflation paths generated by The Vanguard Capital Markets Model® (VCMM). (The cashflow simulation is run 10,000 times using 10,000 different investment paths and the distribution of results is then interpreted). By projecting across different market scenarios, VFAM can evaluate a wide range of possible financial outcomes for a client's current portfolio approach and its advised alternative, taking into account how the distribution of outcomes changes in different market environments.

### **Life expectancy variability**

Life expectancy is another source of future uncertainty in making projections of future outcomes. Many industry models project across a fixed-life expectancy assumption (to be prudent, an adviser and client may agree to plan for a 100-year life expectancy). VFAM instead uses the investor's age (with health status as an optional input) to calculate the possibility of death in each year and weigh those outcomes accordingly.

This means that each of the 10,000 market return scenarios is further weighted based on the probability that the client will live to experience the given outcome (i.e., we are varying longevity across each of the investment paths run).

### **Utility-based scoring**

#### **What is utility scoring?**

In essence, 'utility' is not strictly a measure of wealth, but the life satisfaction or usefulness that wealth can provide. When we consider utility scoring, greater wealth does not necessarily lead to improved outcomes for investors. VFAM uses a utility function allowing it to rank different strategies from best to worst. It captures the trade-offs between current and future spending and between spending and inheritance. The 'best' utility strategy is one that fares better than other strategies when taking into account all market scenarios and accounting for uncertain mortality risk. For more details on VFAM and its utility-based scoring approach, please see the appendix.

## Benefits of our measurement approach

Many of the features of VFAM are used, or have been used, in other approaches to advice provision and advice value measurement. For example, Morningstar's Gamma valuation approach also uses a utility-based equivalency measure to value possible sources of advice value (Blanchett and Kaplan, 2013). However, we think our approach improves on traditional metrics in three main ways:

- 1. Personalisation.** Most prior discussions of value have focused on valuing advice interventions in a general way. Our approach concentrates on assessing value at the individual investor level, explicitly accounting for differences in client tax brackets and other attributes. This helps us measure the value of a specific set of advice interventions. Knowing this can inform decisions around prioritising higher-value interventions for each investor.
- 2. Distributional outcomes.** While many advice discussions use Monte Carlo simulations<sup>9</sup> to illustrate the range of potential investment outcomes, our method explicitly values each of those possible outcomes and weighs them appropriately. Our method also explicitly accounts for life expectancy variability, while most advice conventions simply project to a given age.
- 3. Multi-strategy effects.** Each potential advice intervention can provide value in isolation, but by measuring a set of interventions together, we can see how the total value is not just the sum of its parts. Sometimes multiple interventions can overlap and independently fix issues with a particular baseline case. At other times, advice interactions can work together to produce superior outcomes than when applied in isolation.

### What are multi-strategy effects?

An adviser could, for example, simultaneously recommend a client remains fully invested in retirement instead of moving into cash, while also encouraging them to enjoy spending more of their money (where appropriate), given they are highly unlikely to run out. In this case, the client will tend to have higher wealth outcomes from staying invested which, in turn, leads to a higher amount that the client can spend comfortably in retirement. In this case, we might see a positive multi-strategy effect.

In another example, an adviser could recommend prioritising a client's contributions into their personal pension above their individual savings account (ISA). In addition, they might suggest the client would benefit from their employer's pension match by increasing their contributions to their workplace pension. The result would likely be an overlap in the benefits from the two separate interventions. In this case, we could see a negative multi-strategy effect.

### Case studies

Using our value of advice framework, we can now measure the value of advice at the client level. The advice activities which are most valuable will vary greatly from person to person depending on a range of factors, including personal characteristics<sup>10</sup>, life stage and market conditions.

To illustrate the flexibility of our measurement approach, we provide six case studies of hypothetical clients at different life stages, offering different opportunities for an adviser to add value (the case studies all consider investors with retirement goals). The six case studies cover a broad range of financial planning and portfolio construction issues faced by UK investors. **Figure 5** provides an overview of the different advice interventions considered and the case studies they apply to.

<sup>9</sup> Monte Carlo simulations are used in financial planning to generate outcome scenarios that may not be captured by methods solely based on historical events. These simulations help test financial plans against a wide range of outcomes by studying how a model responds to randomly generated inputs.

<sup>10</sup> For the purposes of our case studies, all individuals are assumed to have no underlying health issues.

**FIGURE 5**  
**Overview of interventions and case studies**

Advice intervention:	1.	2.	3.	4.	5.	6.
	Jennifer	Ashley	Michael	Anita	Lisa	Peter
Contribution order (e.g. prioritise pension contributions)						
Withdrawal order (e.g. prioritising sale of less tax-efficient assets in retirement)						
Dynamic spending						
Improved suitability of asset allocation over time (including addressing "cash drag" <sup>11</sup> )						
Rebalancing						
Underspending						
Overspending						
Improvements to cost of investing						
Addressing incomplete National Insurance record						
Capturing employer pension match						
Behavioural coaching: Staying the course						

**11** "Cash drag" refers to holding a portion of one's portfolio in cash instead of investing it in the market. This is likely to 'drag' down portfolio performance over time.

Figure 6 provides a quick glance at the value each client derived from the suggested advice interventions. We examine each case study in more detail in the next section.

FIGURE 6

**A summary of our case study results**

<p><b>1. Jennifer (45)</b> (Accumulated assets: £303,000) An investor who, after experiencing volatile markets in recent years, has <b>started adding cash</b> into her portfolio to feel better protected. She is <b>overly optimistic about the amount she will have available to spend in retirement</b> and would benefit from recalibrating her goal.</p> <p><b>Approximate value of advice equivalent to:</b></p> <p style="text-align: center;"><b>0.60%</b>                      <b>£172,318</b> of additional              of additional cash annual return              windfall</p> <p><b>Most valuable advice interventions:</b></p> <ul style="list-style-type: none"> <li>• Become fully invested in a balanced portfolio (rather than holding a large cash allocation)</li> <li>• Increase savings to improve success of meeting goals.</li> </ul>	<p><b>2. Ashley (50)</b> (Accumulated assets: £51,000) A relatively high earner (falling into the “60% tax trap”<sup>12</sup>) who is not taking full advantage of the benefits of making <b>additional pension contributions</b>.</p> <p><b>Approximate value of advice equivalent to:</b></p> <p style="text-align: center;"><b>1.33%</b>                      <b>£264,001</b> of additional              of additional cash annual return              windfall</p> <p><b>Most valuable advice interventions:</b></p> <ul style="list-style-type: none"> <li>• Taking full advantage of her employer’s matching contribution scheme in relation to her workplace pension.</li> <li>• Redirecting savings made to her ISA into a pension instead and receiving tax relief.</li> </ul>	<p><b>3. Michael (55)</b> (Accumulated assets: £207,000) A mid-career investor who has been working with an <b>uncompetitively-priced adviser</b>. His <b>risk level is out of date</b> and a <b>gap in his National Insurance record</b> has gone unnoticed.</p> <p><b>Approximate value of changing adviser equivalent to:</b></p> <p style="text-align: center;"><b>1.83%</b>                      <b>£131,417</b> of additional              of additional cash annual return              windfall</p> <p><b>Most valuable advice interventions:</b></p> <ul style="list-style-type: none"> <li>• Prioritising pension contributions.</li> <li>• Setting risk at the appropriate level in his portfolio.</li> </ul>
<p><b>4. Anita (60)</b> (Accumulated assets: £1,690,000) A late-career, cautious investor who does not fully understand the <b>high level of equity risk in her portfolio</b> and <b>how best to withdraw from her accounts</b> in retirement.</p> <p><b>Approximate value of advice equivalent to:</b></p> <p style="text-align: center;"><b>1.26%</b>                      <b>£967,365</b> of additional              of additional cash annual return              windfall</p> <p><b>Most valuable advice interventions:</b></p> <ul style="list-style-type: none"> <li>• Adjust her asset allocation to better reflect her relatively cautious risk profile.</li> <li>• Withdraw from her available accounts in a tax-efficient manner.</li> </ul>	<p><b>5. Lisa (65)</b> (Accumulated assets: £1,110,000) An investor close to retirement who has not identified effective ways to (a) <b>tax efficiently withdraw</b> from her different tax wrappers and (b) <b>ensure sustainable withdrawals</b> during retirement.</p> <p><b>Approximate value of advice equivalent to:</b></p> <p style="text-align: center;"><b>0.95%</b>                      <b>£313,046</b> of additional              of additional cash annual return              windfall</p> <p><b>Most valuable advice interventions:</b></p> <ul style="list-style-type: none"> <li>• Withdraw from her available accounts in a tax-efficient manner.</li> <li>• Implement a dynamic spending strategy to improve the sustainability of her assets in retirement.</li> </ul>	<p><b>6. Peter (57)</b> (Accumulated assets: £2,010,000) An investor who recently sold his business. He is pre-disposed to <b>panic during serious market downturns</b> and <b>worries about what he can afford to spend</b> in retirement.</p> <p><b>Approximate value of advice equivalent to:</b></p> <p style="text-align: center;"><b>3.55%</b>                      <b>£1,225,563</b> of additional              of additional cash annual return              windfall</p> <p><b>Most valuable advice interventions:</b></p> <ul style="list-style-type: none"> <li>• Encourage greater spending in retirement.</li> <li>• Introduce a dynamic spending approach for portfolio withdrawals.</li> </ul>

**Note:** The “additional cash windfall” (also referred to as the “windfall equivalent amount”) is the required amount of additional money an investor would need to receive today, without advice interventions, to give them an equivalent outcome to the advised interventions. All else being equal, £1 of additional cash windfall will have a greater impact for younger investors as they have a longer time horizon over which to enjoy its benefit.

**On fees and costs:**

The case studies assume:

- An increase in annual cost of 1.00% for moving from the baseline plan to the advised position\*.
- A one-off initial charge of 1.00% applies (with a floor of £1,000 and a ceiling of £10,000).

The “additional return” and “additional cash windfall” figures presented below are **after** these costs.

\*With the exception of case study 3, Michael, who is already advised and moves to a lower-cost arrangement.

Costs will vary between advisers and between clients. In the case of ongoing cost figures, they do not just represent the adviser’s charges, but also reflect changes in other costs (such as fund/investment costs, transaction costs and platform/custodian costs). Indeed, one of the roles of an adviser is to assess the value for money of a client’s existing self-managed arrangements (in many cases, the adviser will be able to reduce these “other costs”).

For example, an investor who begins working with an adviser is charged an annual advice fee of more than 1%, but recoups the value of the fee through the adviser’s like-for-like improvements in fund and platform costs.

	Self-managed (baseline)	With advice (interventions)	Difference
Fund costs (comparable index funds)	0.40%	0.25%	-0.15%
Platform costs	0.30% <sup>13</sup>	0.20%	-0.10%
Advice charge	n/a	1.25%	+1.25%
<b>Total</b>	<b>0.70%</b>	<b>1.70%</b>	<b>+1.00%</b>

**12** The “60% tax trap” applies to individuals in the UK earning between £100,000 and £125,140, who are subject to an effective tax rate of 60% on their income within this range. This is because the UK personal allowance reduces by £1 for every £2 that an individual’s adjusted net income exceeds £100,000.

**13** Based on the UK market average. Vanguard platform costs are significantly lower.

## Conclusion

Financial advisers provide a great deal of value in a myriad of ways; the value of helping investors reach their goals is far higher than many people imagine. By making that value tangible, advisers can improve client outcomes, attract new clients and retain existing ones.

The key to providing value in any situation is to first understand the goals and plans of each client, then identify the right set of advice interventions to match their needs. Measuring this value is a key task to help advisers discover the most valuable advice recommendations and to communicate to clients the ongoing value of following through.

As life progresses and aspirations and market conditions change, advisers need to depend on their process so they can understand clients' changing needs and continue to find opportunities to provide value.



## Case Studies



**Jennifer, aged 45**

**0.60%  
advice value added  
annually (after fees)**

Equivalent  
to...

**A cash windfall of  
£172,318**

*A mid-career investor needing help around her risk level (specifically allocation to cash), rebalancing and saving level for meeting her goal.*

### Background

Jennifer, aged 45, is in the middle of her career. She has always organised her own finances and has already made good progress saving for her retirement. She wants her retirement to be comfortable and so, for her, this means being able to spend £50,000 per year.

The last couple of years have been quite volatile in markets and this is the first time Jennifer has experienced such large drops in her portfolio (in previous periods of market turmoil, the value of her assets was much smaller so she did not feel it as much). She considers herself a moderate investor and has previously tried to keep her asset mix to 60/40 (equity/bond). However, given her nervousness about the markets, and with cash rates slightly improving, she started building up a cash reserve alongside her portfolio rather than being fully invested. She ends up with 30% of her total assets in cash, with the remainder in a roughly 60/40 portfolio (overall this represents a 40 equities/30 bonds/30 cash portfolio).

Key Info		
Age	45	
Risk profile	Moderate	
Planned retirement age	66	
Cashflow (in today's money)		
Income (pre-retirement)	£85,000	
Annual spending	Pre-retirement	£60,000
	In retirement	£50,000
Anticipated state pension (from age 67)	£11,500	
Existing investments		
Pensions (defined contribution)	£150,000	
ISAs	£150,000	
General account	£3,000	
Current asset allocation	40% equities 30% bonds 30% cash	
Workplace pension arrangements		
Employer contribution	5%	
Employee contribution	3% (no additional match on offer)	

### Advice

Jennifer is introduced to an adviser who begins by understanding Jennifer's finances and, importantly, her goals. The adviser prepares a cashflow for Jennifer which is a good basis for discussion.

Jennifer's adviser knows that cash is generally an unsuitable investment for longer-term investors like herself. The adviser explains that the longer-term benefits of being fully invested are likely to outweigh the short-term security of staying in cash, and recommends readjusting Jennifer's asset allocation to a 60/40 mix of shares/bonds.

At her current level of savings, Jennifer is unlikely to reach her retirement goal (£50,000 per annum, of which £11,500 is covered by her state pension), even if she is fully invested in a 60/40 portfolio and markets perform reasonably strongly over her investment horizon. The adviser discusses with Jennifer the likely trade-offs between her current expenditure, her retirement expenditure and her retirement age. Jennifer is not keen on the idea of cutting her retirement spend, nor pushing out her retirement. However, she does feel like she can improve her saving behaviour during her working years with some greater discipline and careful budgeting. She believes she can save an additional £6,000 per year.

## Interventions and impact

Because of the interventions, including a change in saving behaviour by Jennifer, the chances of success in meeting her goal increases considerably. Without the interventions, Jennifer would have experienced cash drag on her portfolio and would have likely realised far too late that she was not in a position to meet her goal.

Advice interventions
1. Provide a more appropriate asset allocation for a long-term goal by removing the cash drag.
2. Rebalance the portfolio as it drifts away from the target position
3. Identify saving gap and increase saving to improve success of meeting goal.

## Increase savings (90 bps)

By increasing her level of saving, Jennifer will likely avoid the disappointment of getting much closer to retirement and realising she has to compromise materially on when she retires, or significantly reduce the amount she is planning to spend in retirement. Or worse still, she enters her retirement and runs out of money too soon. By making the adjustment in her savings habits early she makes a smooth and smaller adjustment to her lifestyle rather than receiving an unwelcome shock. This adjustment is worth 90 bps, which can be attributed to the impact of avoiding the negative scenarios she would have faced had she reached retirement without enough savings.

## Remove cash drag (54 bps)

In being fully invested, Jennifer removes the cash drag that applies to 30% of her portfolio. While cash is attractive from a capital preservation perspective, its risk reward trade-off makes it less-than-ideally suited for long-term goals. In most market scenarios, this cash reduction will improve the long-term return she receives, without pushing the risk up so high that she will experience too much discomfort in negative or volatile market scenarios. This adjustment provides a benefit of 54 bps to Jennifer. It should be reiterated that this 54 bps does not equate to "extra expected investment return" (one would expect this measure to be higher than 54 bps). It represents the utility benefit of moving to a more suitable asset allocation.

FIGURE 7

## Jennifer can get 60 bps of annual advice value (based on a 100 bps cost difference)

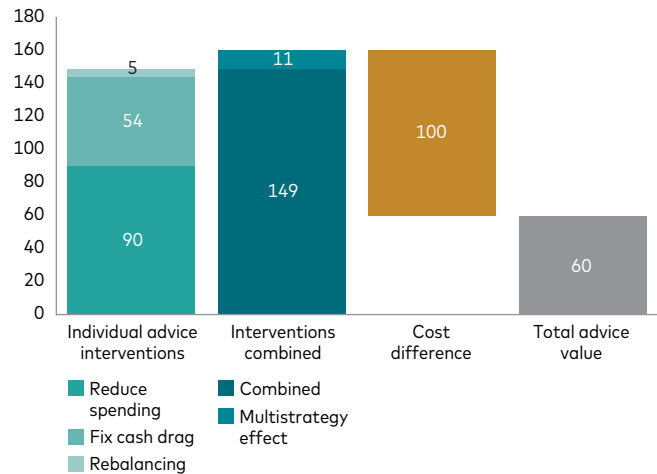


Figure 7 shows the impact of the advised interventions, which we quantify using our framework. We do see some small positive overall interaction between the three interventions whereby the benefits do complement each other (the combined impact of the interventions is 11 bps more than the sum of the individuals).

## Rebalancing (5 bps)

The practice of rebalancing, something she would not have implemented by herself, adds a further 5bps of value for Jennifer. While her self-selected risk level is too low for her at the moment, as she gets closer to, and continues to invest in retirement, her 40% equity, 30% bond, 30% cash portfolio will, in most market scenarios, drift towards a higher risk position. In some market scenarios, the risk level will become unsuitably high for her, explaining why value is added by keeping this under control through rebalancing.

**For Jennifer, we see significant value added over her lifetime, well in excess of the costs of appointing her adviser.**



**Ashley, aged 50**

**1.33%  
advice value added  
annually (after fees)**

Equivalent  
to...

**A cash windfall of  
£264,001**

*A relatively high earner who would really benefit from prioritising pension contributions.*

## Background

Ashley, age 50, recently received a promotion that included a significant increase in her salary to £130,000 per year. In past years, Ashley's monthly income did not leave much to spare for savings, especially after taking into account monthly mortgage repayments (her mortgage is now nearly repaid). Ashley feels she is behind where she ought to be in her retirement planning. Accordingly, she is keen to start directing some of her surplus monthly income towards retirement and is saving into an ISA. She thinks of herself as a balanced investor, and has so far self-managed her holdings, selecting a suitable target retirement fund into which she is making regular contributions.

What Ashley hasn't realised is how powerful pension contributions will be for her. She is missing out on an opportunity to capture further workplace pension contribution matching from her employer as well as mitigating the "60% tax trap"<sup>14</sup> on her income.

Key Info		
Age	50	
Risk profile	Moderate	
Planned retirement age	68	
Cashflow (in today's money)		
Income (pre-retirement)	£130,000	
Annual spending	Pre-retirement	£66,000
	In retirement	£56,000
Anticipated state pension (from age 68)	£11,500	
Existing investments		
Pensions (defined contribution)	£30,000	
ISAs	£20,000	
General account	£1,000	
Current asset allocation	75% Equities / 25% Bonds (on standard glide path)	
Workplace pension arrangements		
Employer contribution	5%	
Employee contribution	3% (will receive employer match up to 6%)	

## Advice

Ashley appoints an adviser who gains a detailed understanding of her circumstances and goals.

After a thorough conversation about Ashley's aspirations, they establish that Ashley will need to spend £56,000 per year in retirement to fund her desired lifestyle.

The adviser also discovers that Ashley is missing out on a valuable opportunity through her employer's workplace pension matching programme, towards which she is currently contributing 3% of her annual pre-tax earnings. However, her employer will match up to 6%, meaning Ashley is not taking full advantage of this 'free money' on offer from her employer.

The adviser recommends Ashley increase her pension contributions to 6% to maximise the value of her employer's match.

Alongside this, the adviser highlights the benefits to Ashley of investing in her pension versus ISA, explaining that a pension is a better savings vehicle for Ashley given the long-term nature of her financial goal (despite the drawback of her pension being less accessible than an ISA). The adviser also notes that, since Ashley's pre-tax income sits just above the upper earnings threshold for the "60% tax trap", she will benefit from 60% tax relief on a large portion of her pension contributions.

<sup>14</sup> The "60% tax trap" applies to individuals in the UK earning between £100,000 and £125,140, who are subject to an effective tax rate of 60% on their income within this range. This is because the UK personal allowance reduces by £1 for every £2 that an individual's adjusted net income exceeds £100,000.

Ultimately, Ashley will pay tax on her pension contributions when she begins to withdraw her money during retirement, but her effective tax rate at that time will likely be much lower than the near-term benefits of the 60% tax relief on her current contributions.

Because of this, the adviser recommends using the remainder of her pension allowance before considering saving into an ISA.

### Interventions and impact

Based on the adviser's suggested interventions, Ashley's chances of meeting her retirement goal increase considerably.

Advice Interventions
1. Make pension contributions ahead of ISA contributions
2. Capture full benefit of workplace employer pension contribution match

### Adjusting contribution order (196 bps)

The tax relief earned on Ashley's additional pension contributions using her surplus income considerably increases her savings at retirement (prioritising pension contributions over an ISA provides 196 bps of value). It should be noted that, while the interventions are implemented over an 18-year period (while Ashley is still working), the value is realised annually over the remainder of Ashley's lifetime (if we had apportioned the lifetime values of the advice interventions over an 18-year period only, they would be much higher).

### Capturing full employer pension match (79 bps)

Similarly, in capturing the "free money" from her employer match, Ashley increases the capital she saves each year for her retirement (adding 79 bps of value).

**Overall, for Ashley, appointing a financial adviser has added significant value over her lifetime – significantly more than her adviser's costs.**

**FIGURE 8**  
**Ashley can get 133 bps of annual advice value (based on a 100 bps cost difference)**

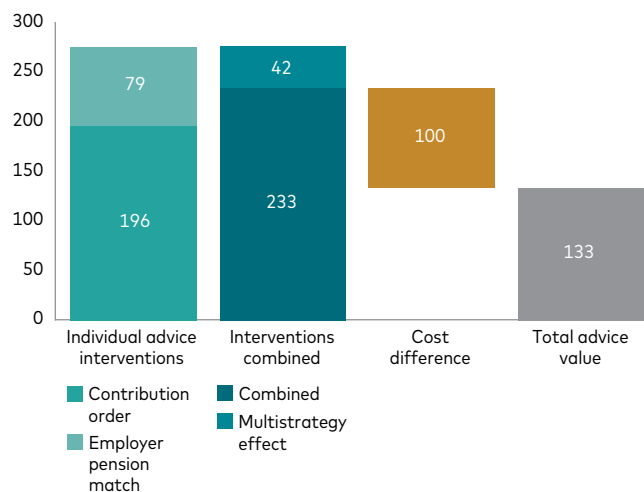


Figure 8 illustrates the quantifiable impact of the two advised interventions on Ashley's financial plan. We can see some overlap between the two advice interventions, whereby the combined impact of the interventions is 42 bps less than the sum of the individual changes on their own.



**Michael, aged 55**

**1.83%  
advice value added  
annually (after fees)**

Equivalent  
to...

**A cash windfall of  
£131,417**

*An investor whose current adviser is not offering a price competitive service. His risk level has not been updated and he has a gap in his National Insurance record, both of which need addressing.*

## Background

Michael, aged 55, has been with the same adviser for many years. He is starting to feel like his adviser is less interested in him (he knows he's not one of his adviser's largest clients). For example, it has been a long time since he had a proper discussion about his risk profile (the last time they calibrated his risk tolerance, Michael was more anxious about taking risk than he is now).

Michael has an exploratory meeting with another adviser who has a fresh conversation with him about risk. The conversation and the risk profile assessment suggest that Michael actually has a higher appetite for risk than the model portfolio his current adviser is using. Having invested through several stock market crashes and recoveries, Michael now feels less anxious about volatility in his portfolio – he appreciates the potential upside of a higher-risk approach. Michael decides to move to the new adviser who, in turn, does a full analysis of Michael's circumstances.

Key Info		
Age	55	
Risk profile	Moderate to adventurous	
Planned retirement age	68	
Cashflow (in today's money)		
Income (pre-retirement)	£86,000	
Annual spending	Pre-retirement	£48,000
	In retirement	£40,000
Anticipated state pension (from age 67)	Not confirmed	
Existing investments		
Pensions (defined contribution)	£100,000	
ISAs	£80,000	
General account	£27,000	
Current asset allocation	"Cautious" glide path	
Workplace pension arrangements		
Employer contribution	5%	
Employee contribution	3% (no additional match on offer)	

## Advice

The adviser recommends that Michael align to the adviser's "moderate-to-adventurous" glide path model, explaining that the model will automatically de-risk over time.

The adviser notes that Michael has been saving into an ISA for the last four years, rather than making additional contributions to his employer-sponsored pension plan. It turns out that Michael had previously been dissuaded from increasing his contributions by the plan's complexity and the lack of access to his pension assets until age 57. The new adviser helps Michael understand the advantages of contributing to his pension versus an ISA. He highlights that he is only two years away from being able to access his pension should he need to (albeit with implications on what he can then contribute to the pension).

Michael starts to take advantage of the tax relief available to the pension, increasing the amount he can save towards retirement.

Finally, in checking Michael's National Insurance record, the adviser realises he will not have enough qualifying years for the full State Pension, even if he works until his planned retirement date. The adviser recommends that Michael make six years' worth of voluntary Class 3 National Insurance contributions to 'top up' his account and qualify for the full State Pension benefits. While this represents an up-front cost to Michael, it will provide a material increase in his secure and inflation-linked income when he retires.

## Interventions and impact

Thanks to the interventions, Michael's chances of successfully meeting his retirement goal increases considerably. Without the interventions, Michael would have a) persistently held a level of risk that was too low – likely compromising the returns he would receive; b) failed to take advantage of important tax benefits on offer and c) missed out on a valuable state provision in retirement.

For clients who are already advised and move to a different advice provider, the value added should reflect the change in costs from one adviser to another. These costs are not just representative of the adviser's charges but will also reflect changes in other costs (such as fund/investment/platform costs). Indeed, one of the roles of an adviser will be to assess the value for money of a client's existing self-managed arrangements. In Michael's case we have assumed the new adviser has been successful in reducing his costs by 30 bps overall (from old to new).

Advice interventions
1. Make pension contributions ahead of ISA contributions
2. Update asset allocation approach to reflect Michael's higher attitude to risk
3. Address significant gap in National Insurance Record

### Adjusting contribution order (91 bps)

Capturing the available tax relief by prioritising pension contributions provides Michael with a further 91 bps of benefit.

### Updating asset allocation (42 bps)

The move to a higher-risk glide path model provides Michael with added value equivalent to 42 bps. In most market scenarios, this will improve his long-term returns, but without reaching a risk level that is uncomfortable for him in negative or volatile market scenarios.

**FIGURE 9**  
**Michael can get 183 bps of annual advice value (based on an additional 30 bps cost difference)**

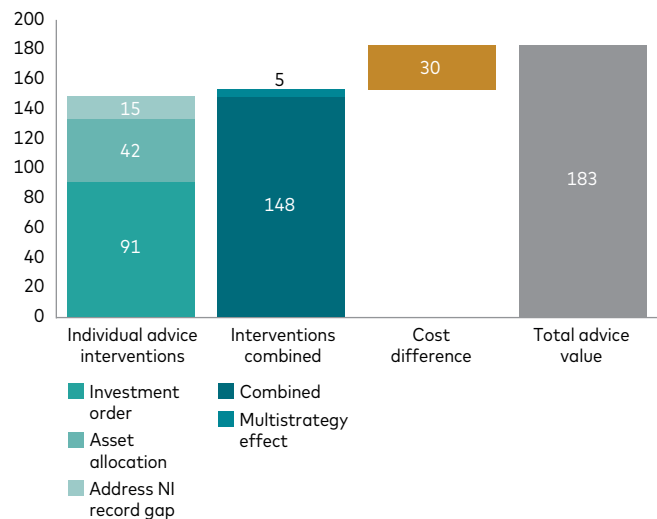


Figure 9 shows the impactful advised interventions, which we quantify using our framework. In Michael's case, we also see some positive interaction between the advice interventions whereby the benefits complement each other, and their combined impact of the interventions adds 5 bps more than the sum of the individual interactions.

### Addressing National Insurance record (15 bps)

Identifying the gap in Michael's National Insurance record and recommending Michael top up his contributions results in Michael earning nearly £2,000 (in today's money) of extra inflation-linked retirement income each year – providing 15 bps of added value annually.

**For Michael, the move to a new adviser was worthwhile, providing significant added value over his lifetime.**



Anita, aged 60

1.26%  
advice value added  
annually (after fees)

Equivalent  
to...

A cash windfall of  
£967,365

A later career cautious investor who isn't aware she is invested at a much higher risk level than is appropriate for her. She is also unsure of how best to withdraw from her accounts in retirement.

## Background

Anita is five years away from retirement. She has built up considerable assets, including a portfolio of rental properties which pay her a good income yield. She considers herself a relatively cautious investor – describing herself as being someone who stays away from high-risk investments like crypto and commodities.

Her self-managed portfolio has performed well over the years as equity markets have been strong. She believes it is sensible to stick with this proven approach and sees no reason to change her strategy that has so far proven successful.

Key Info		
Age	60	
Risk profile	Cautious-to-Moderate	
Planned retirement age	65	
Cashflow (in today's money)		
Income (pre-retirement)	£144,000	
Rental income (pre & post-retirement)	£54,000	
Annual spending	Pre-retirement	£66,000
	In retirement	£56,000
Anticipated state pension (from age 67)	£11,500	
Existing investments		
Pensions (defined contribution)	£750,000	
ISAs	£300,000	
General account	£740,000 (base cost of £500,000)	
Current asset allocation	80% Equities / 20% Bonds	
Workplace pension arrangements		
Employer contribution	5%	
Employee contribution	3% (no additional match on offer)	

## Advice

Anita decides to sense check her plan and her circumstances with an adviser. They have a good conversation about Anita's goals and her circumstances, while identifying some areas where Anita's financial plan could potentially be improved. Anita appoints the adviser and they start working together.

In his initial work, the adviser conducts due diligence on Anita's arrangements, ascertains her risk profile and runs a personalised cashflow simulation for her. From this, the adviser develops a financial plan and prepares a list of recommendations tailored to Anita's situation.

While Anita has correctly identified herself as a relatively cautious investor, this is not aligned with the risk she is currently taking.

She has equated an adventurous risk profile with certain investment categories, not recognising that her high allocation to equities represents a higher-risk position (and is unsuitable for her needs).

The adviser recommends a more suitable asset allocation strategy, aligning Anita to their "cautious-to-moderate" glide path model, explaining that it will de-risk over time.

The adviser also explains that withdrawing from the pension first may not be the most tax-efficient strategy for Anita (despite Anita believing she should draw from her pension first since it is her "retirement account"). This is because it preserves her general account for longer (until her pension and ISA are depleted), which results in more tax drag, given the dividend,

interest and capital gains taxation that could apply. By prioritising withdrawals from her general account first, Anita will likely reduce the taxes she pays in retirement.

Finally, using the cashflow simulation, the adviser observes that Anita has a chance of meeting her goal, based on her current and planned spending,

but she may also fall short and end up running out of money during retirement. Anita recognises that a modest reduction in her annual expenditure of ~4% (equivalent to a reduction of £4,000, from £110,000 to £106,000) will make it far more likely she reaches her goal, and she decides to recalibrate her plans.

### Interventions and impact

Thanks to the interventions, Anita is now much better protected in the event of poor market outcomes (and the associated discomfort from volatility or missing the goal). She has made improvements to her tax efficiency during retirement and has slightly recalibrated her goal to give her greater peace of mind that she will be able to meet it.

Advice interventions
1. Update the asset allocation to an appropriate glide path to match risk
2. Prioritise selling the general account when drawing down assets
3. Slightly reduce spending in retirement (by £4,000) to extend longevity of portfolio

### Update asset allocation (131 bps)

Using traditional measures of value/benefit, reducing risk generally leads to lower long-term returns, on average. This is counterintuitive when we are talking about "adding value" with this intervention. However, in moving Anita from a risk level that was too high to a lower-risk glide path, she benefits from a higher level of utility. She is now better protected from high levels of market volatility (which we know would make her very uncomfortable because of her cautious risk profile) and, in those low-likelihood but high-impact negative market scenarios, she is better protected from running out of money. We calculate this benefit to be 131 bps based on this asset allocation adjustment.

### Tax-efficient withdrawal order (59 bps)

Drawing down her assets in a more tax-efficient order, starting with her general account rather than her pension, helps add another 59 bps of benefit for Anita.

**FIGURE 10**  
Anita can get 126 bps of annual advice value (based on a 100 bps cost difference)

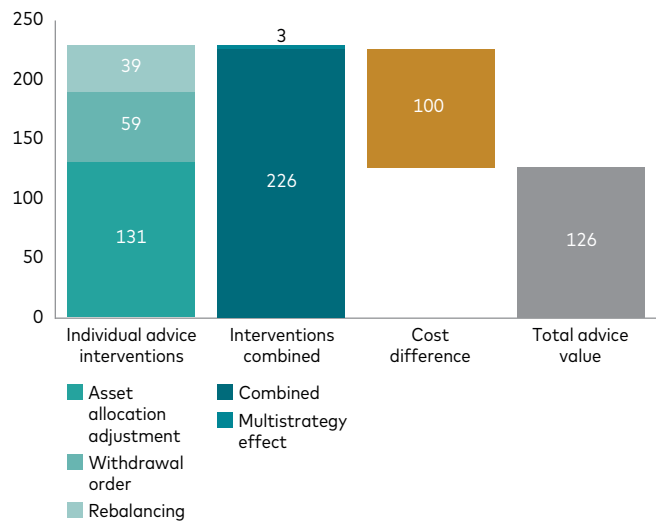


Figure 10 shows the three impactful advised interventions, which we quantify using our framework. In Anita's case, we see virtually no overall interaction (just 3 bp less than the sum of the individuals). This tells us the interventions are sufficiently independent and do not impact each other.

### Reduce spending (39 bps)

Making a small reduction to Anita's expenditure helps her to steer clear of scenarios in which she runs out of money in retirement. In effect, Anita is smoothing out her consumption, and we calculate these benefits as being worth 39 bps.

**Overall, for Anita, we see significant added value over her lifetime, well in excess of the costs of appointing her adviser.**





**Lisa, aged 65**

**0.95%  
advice value added  
annually (after fees)**

Equivalent  
to...

**A cash windfall of  
£313,046**

*An investor nearing retirement who can benefit from a more tax-efficient withdrawal approach to help ensure her portfolio is sustainable throughout retirement.*

## Background

Lisa, 65, is approaching retirement and has built enough wealth to achieve her desired lifestyle throughout her retirement years. She has the main three tax wrappers: pension, ISA and general account. She doesn't have a good sense of the best strategy for drawing down her assets, but she is conscious of the need to have available cash as she approaches retirement.

Lisa assumes it will make most sense for her to start drawing from her pension (given this is her retirement vehicle), followed by her ISA, and then her general account. In anticipation of her retirement, Lisa makes sure she holds around 10% of her portfolio in cash, with the rest invested in a cautious mix of assets to reflect her risk profile.

Lisa begins working with an adviser who starts by understanding her finances and, importantly, her goals. The adviser prepares a cashflow simulation for Lisa, which is a good basis for discussion.

Key Info		
Age	65	
Risk profile	Cautious to Moderate	
Planned retirement age	68	
Cashflow (in today's money)		
Income (pre-retirement)	£250,000	
Annual spending	Pre-retirement	£130,000
	In retirement	£72,000
Anticipated state pension (from age 66)	£11,500	
Existing investments		
Pensions (defined contribution)	£500,000	
ISAs	£200,000	
General account	£410,000	
Current asset allocation	34% Equities / 56% Bonds / 10% Cash	
Workplace pension arrangements		
Employer contribution	5%	
Employee contribution	3% (no additional match on offer)	

## Advice

Although Lisa has the right idea in introducing a cash allocation as she nears retirement, her adviser explains that she may reduce her chances of reaching her goal by introducing cash too early and in too high an amount. The adviser explains that her retirement should be viewed as a long-term goal, and that she will be accessing her portfolio for many years into the future.

The adviser recommends she stay fully invested in a 40% equity/60% bond portfolio (a good match, given her risk profile) and to regularly rebalance the portfolio to avoid drifting away from the target asset allocation.

The adviser also explains that withdrawing from the pension first may not be the most tax efficient

strategy for Lisa. This is because it preserves her general account for longer (until her pension and ISA are depleted), which results in more tax drag, given the dividend, interest and capital gains taxation that could apply. By prioritising withdrawals from her general account first, Lisa will likely reduce the taxes she pays over her retirement.

Finally, the adviser proposes to Lisa a "dynamic spending"<sup>15</sup> approach to portfolio withdrawals. The adviser explains that, providing Lisa is comfortable with slightly adjusting down her expenditure when necessary, dynamic spending can be a very powerful tool for preserving the longevity of her portfolio, increasing her chances of success in meeting her spending goal.

<sup>15</sup> Dynamic spending refers to an annual withdrawal strategy that can be adjusted upwards or downwards throughout retirement (subject to ceiling and floor guidrails), depending on the investment performance of the portfolio.

## Interventions and impact

Thanks to the interventions, Anita is now much better protected in the event of poor market outcomes (and the associated discomfort from volatility or missing the goal). She has made improvements to her tax efficiency during retirement and has slightly recalibrated her goal to give her greater peace of mind that she will be able to meet it.

Advice interventions
1. Avoid holding cash in the portfolio before it is really needed
2. Ensure portfolio rebalancing to avoid drifting away from the targeted portfolio over time
3. Prioritise drawing down the general account
4. Introduce a "dynamic spending" approach to portfolio withdrawal

### Keep portfolio fully invested (10 bps)

By remaining fully invested, Lisa removes the cash drag that applies to 10% of her portfolio. While cash is attractive from a capital preservation perspective, its risk-reward trade-off makes it less-than-ideally suited for long-term goals. Although Lisa is not far from retirement, it is unlikely she will need to liquidate her portfolio when she retires (the adviser has deemed an annuity is not appropriate for her). This adjustment provides a benefit of 10 bps to Lisa. This is a fairly modest estimate, owing to the fact that Lisa will be withdrawing some of her portfolio reasonably soon, and her risk profile is towards the more cautious end of the risk spectrum. While cash is not ideal, it is less costly for Lisa than for an investor with a longer time horizon and a higher risk profile<sup>16</sup>.

### Rebalancing (6 bps)

Regular rebalancing provides Lisa with a further 6 bps of value. Without this, she faces the risk that her portfolio could drift considerably from its target allocation.

### More tax-efficient withdrawal strategy (83 bps)

Drawing down her assets in a more tax efficient order, starting with the general account first rather than the pension, helps add another 83 bps of benefit for Lisa. Leaving her pension until last could also provide a legacy benefit, as the residual value of the pension can be passed onto Lisa's grandchildren on her death (who, in turn, can likely draw the funds at a modest or zero rate of tax).

FIGURE 11

### Lisa can get 95 bps of annual advice value (based on a 100 bps cost difference)

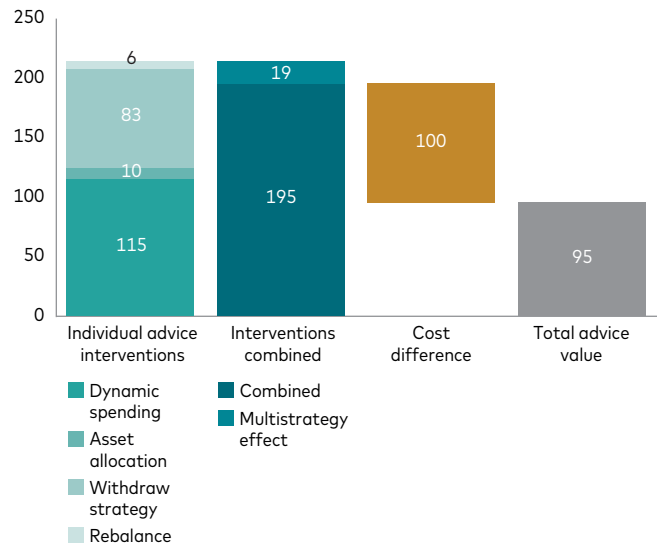


Figure 11 shows the four impactful advised interventions, which we quantify using our framework. We see some overall interaction between the four interventions whereby the benefits do overlap (the combined impact of the interventions is 19 bps less than the sum of the individuals).

### Dynamic spending (115 bps)

Finally, the use of dynamic spending<sup>17</sup> provides the greatest benefit for Lisa at 115 bps. Lisa's adviser sets out a framework in which her spending is adjusted each year, depending on the performance of her portfolio in the preceding period relative to inflation. In periods that follow poor returns, Lisa will cut back her expenditure, and in periods following strong returns she can increase her spending. Each year, Lisa's adviser will perform the calculations so Lisa can budget accordingly. The strategy is effective at addressing "sequence of return" risk for Lisa and considerably reduces the chance that she will run out of money during retirement. Although Lisa has a target amount she would like to be able to spend each year, she feels comfortable staying flexible if it means giving herself better long-term security.

**Overall, for Lisa, we see significant value over her lifetime, well in excess of the costs of appointing her adviser.**

<sup>16</sup> See Shtekhman, Harbron, Aliaga-Diaz, Jacobs, Bloore: A framework for allocating to cash: risk, time horizon and funding level (2024).

<sup>17</sup> Daga, Ankul; Clarke, Andrew S; Pakula, David; Bupp, Jacob 2021. Sustainable spending rates in turbulent markets. Valley Forge, PA.: The Vanguard Group.



**Peter, aged 57**

**3.55%  
advice value added  
annually (after fees)**

Equivalent  
to...

**A cash windfall of  
£1,225,563**

*An investor who recently sold his business to retire early. He is pre-disposed to panic during market downturns and is worried about what he will be able to afford to spend in retirement as it's never something he's thought about before.*

## Background

Peter is an entrepreneur who sold his business for a sizeable payout, which he will use to fund his retirement. His accountant advised him on how to structure his tax wrappers, but he manages his portfolio himself using low-cost funds.

Peter is comfortable with a certain level of uncertainty and so sets himself up with a portfolio which, although highly liquid and easily accessible, is 100% invested in equities (he understands that equities carry more risk which can lead to more reward when markets are rising). However, although very experienced in running a business, Peter has never actually been through a full stock market cycle with his recently acquired wealth.

Additionally, Peter has spent years carefully budgeting his cashflow and keeping his expenses under control. He is holding onto this tendency even though he can afford to spend more to enjoy his hard-earned retirement even more.

Peter is introduced to, and appoints, an adviser, who examines his circumstances and goals in detail (including a detailed assessment of his risk profile). The adviser provides Peter with a long-term cashflow analysis and recommends several advice interventions.

Key Info	
Age	57
Risk profile	Moderate to adventurous
Planned retirement age	Just retired
Cashflow (in today's money)	
Annual spending in retirement	£70,000
Anticipated state pension (from age 67)	£11,500
Existing investments	
Pensions (defined contribution)	£200,000
ISAs	£100,000
General account	£1,710,000 (base cost of £1,710,000)
Current asset allocation	100% Equity

## Advice

First, the adviser recommends the use of a glide path matched to Peter's moderate-to-adventurous risk profile. His current allocation (100% equities) is higher than appropriate and, by de-risking over time, Peter helps protect himself against adverse market conditions during his retirement years.

The adviser talks about their role as a coach for Peter in navigating the ups and downs of markets and staying focused on the goal. We actually see this play out a couple of years down the line – when there is a large market fall and Peter's portfolio drops 23% over a period of just a few days.

Peter wishes to sell and go into cash to avoid further losses, but his adviser persuades him against this, drawing on Peter's own past experience through several market cycles.

The adviser proposes a "dynamic spending" approach to portfolio withdrawals.

Linked to this, and using the cashflow simulation that reflects a dynamic spending approach, the adviser demonstrates to Peter that he can spend over 10% more in retirement than he is planning to, without a material risk of running out of money. Because Peter attributes little importance to leaving a legacy, he is excited by this possibility and updates his retirement plans to include an additional holiday each year.

## Interventions and impact

Thanks to the interventions, Peter can maintain a suitable approach to risk over time, avoid common investment behaviour mistakes and much better manage his spending in retirement.

Advice interventions
1. Update the asset allocation to an appropriate glide path to match risk
2. Behavioural coaching to avoid panic-selling in adverse market conditions
3. Introduce a "dynamic spending" approach for portfolio withdrawals
4. Encourage additional spending of £8,000 per year more than original plan

### Adjusting contribution order (52 bps)

Using traditional measures of value/benefit, reducing risk generally leads to lower long-term returns on average (which is counterintuitive when talking about taking a more suitable approach). However, moving Peter from a risk level that was too high for him over to an appropriate risk-matched glide path, he benefits from a utility perspective. We calculate this benefit to be 52 bps.

### Avoid fleeing to cash (40 bps)

Peter has a propensity to sell following large falls in markets. We can measure the impact of these "panic selling" events by considering a range of distributional outcomes that illustrate what could happen if Peter doesn't sell, as well as some where he does. We calculate the benefit as 40 bps, demonstrating the importance of Peter staying the course and the opportunity for the adviser in coaching him to do so.

### Dynamic spending (95 bps)

The use of a dynamic spending strategy provides Peter with a benefit of 95 bps. Peter's adviser sets out a framework in which his spending is adjusted each year, depending on the performance of Peter's portfolio in the preceding period (relative to inflation). In periods that follow poor returns, Peter needs to be prepared to cut back his expenditure and in periods following strong returns he may be able to increase his spending.

FIGURE 12

**Peter can receive 355 bps of annual advice value (based on a 100 bps cost difference)**

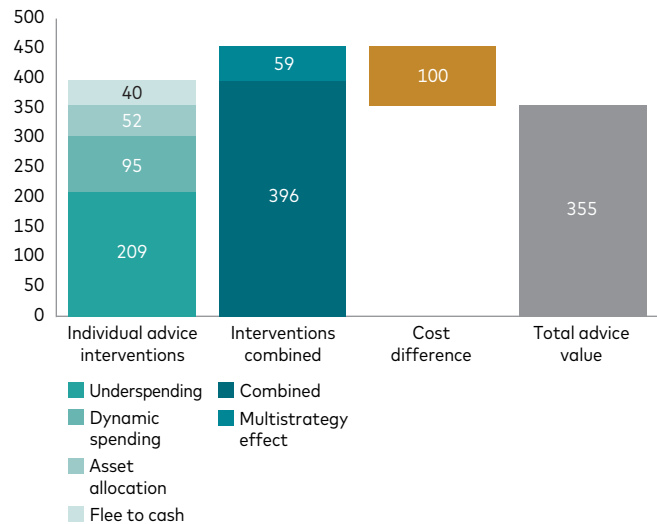


Figure 12 shows the impactful advised interventions, which we quantify using our framework. In Peter's case, we also see some quite significant positive interaction between the three interventions, whereby the benefits complement each other overall (the combined impact of the interventions is 59 bps more than the sum of the individual interventions).

### Spending more (209 bps)

Peter has been overly cautious in budgeting for his retirement and, because dynamic spending increases his overall capacity to spend (albeit with a need to be flexible at times), his underspending becomes even more apparent over time. By spending £8,000 more per year, Peter considerably increases his consumption in retirement which, in turn, represents a more enjoyable, successful outcome for him (i.e. additional utility). Because Peter does not attribute a high priority to leaving a legacy, his additional consumption does not come with a significant opportunity cost. This intervention provides a very material benefit of 209 bps. This is a much better outcome for Peter than leaving a larger inheritance to his beneficiaries.

**For Peter, the decision to appoint an adviser was very impactful, providing significant added value over his lifetime, and well in excess of the costs of advice.**

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## **Appendix A: a review of VLCM key assumptions**

The Vanguard Life-Cycle Investing Model (VLCM) is a proprietary model for glide path construction that can assist in the creation of custom investment portfolios for retirement as well as non-retirement goals, such as saving for university. The main principle behind life-cycle investing and VLCM is to maximise the expected utility of consumption and wealth for people's financial goals. The VLCM selects optimal glide paths for given risk tolerances, goals and demographic characteristics by assessing the trade-offs, across someone's life and/or time horizon, between taking investment risk to increase potential wealth and spending and the downside of increased uncertainty and volatility associated with more investment risk. Thousands of glide paths are compared, and the glide path with the highest utility score (the one that strikes the optimal balance between expected outcome and risk) is the best solution for the investor's preferences, circumstances and goal.

The VLCM uses the distributional forecasting framework of the Vanguard Capital Markets Model (VCMM) and uses asset return simulations to calculate consumption and wealth outcomes for any glide path across 10,000 future possible scenarios.

## **Appendix B: a review of VFAM key assumptions**

The Vanguard Financial Advice Model (VFAM) is designed to exhaustively simulate combinations of financial planning strategies over a life cycle of potential market and economic forecasts to assess how each strategy would perform. All consumption and bequest amounts are presented and evaluated in inflation-adjusted pounds.

Asset allocation recommendations are valued using the Vanguard Life-Cycle Investing Model (VLCM). The VLCM is a proprietary model for glide path construction that can assist in the creation of custom investment portfolios for retirement and non-retirement goals.

For these case studies, we took the recommended allocation based on the VLCM's framework and used it in the VFAM baseline to determine the value of the other advice interventions. The calculated asset allocation advice value from the VLCM was added to the advice value for the other interventions from the VFAM to produce the total value depicted in the case studies.

All case studies assume capital gains rates as announced in the Autumn Budget of October 2024.

Potential bequests are tax-adjusted by assuming a full step-up of taxable basis at death and an immediate tax of tax-deferred balance at a 40% beneficiary tax rate. This is to reflect the budget announcement that pensions will form part of estates in 2027.

Life expectancy variability is calculated using Office of National Statistics (ONS) mortality tables. All case studies in this paper assume average health status.

## Appendix C: illustrating the benefits of utility-based scoring in VFAM

We can illustrate the concept of utility in several different ways:

### Penalising extreme negative scenarios

The utility score does not simply recommend the best average outcome – it also penalises strategies that could result in extremely negative outcomes. For example, consider the following two options:

FIGURE C1

Option 1		Option 2	
50% chance	£0	100% chance	£1,000,000
50% chance	£3,000,000		
Option 1 has the higher average outcome, a 50% chance of £0 and 50% chance of £3 million, for an average of £1.5 million.		However, a utility scoring approach would favour Option 2, as it guarantees £1 million	

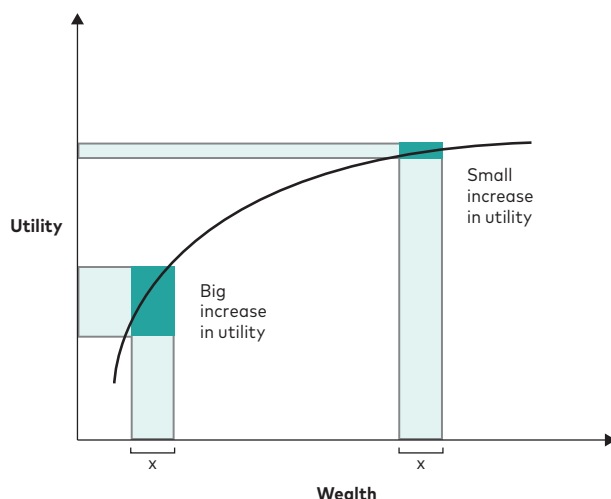
In this example, it is better to have a 100% chance of something than a 50% chance of nothing, even if the potential upside (a 50% chance of £3 million) is far greater (naturally, there will be risk-seekers or high risk-tolerance individuals who may prefer option 1).

### Diminishing marginal benefit (utility) of extra wealth

With each additional unit of wealth, the increase in additional utility becomes smaller.

At lower wealth levels, an increase of a certain amount of wealth will provide much greater utility than the same increase at higher wealth levels.

FIGURE C2



**Note:** The label "x" represents an increase of a given amount of wealth.

**Source:** Vanguard.

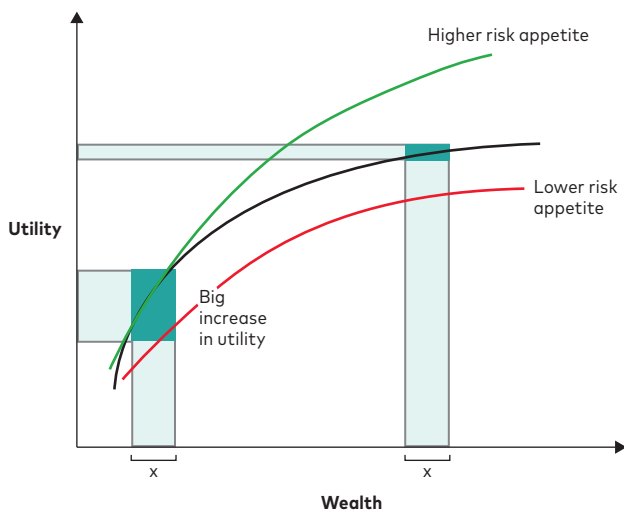
The implications of using utility scoring as the measure of success in VFAM include:

- More emphasis on mitigating, and appropriately weighting, "left tail" outcomes.** Falling short on goals detracts more from satisfaction than excess wealth beyond meeting your goals provides, and our function accounts for this difference. Moreover, it can provide appropriate weighting to low-probability catastrophic outcomes. Advice that mitigates these catastrophic scenarios will (all else equal) be scored more favourably than solutions that fail in bad times but result in greater excess wealth in good times. For example, an investor choosing a plan with an unsuitably high level of risk will have a lower utility score than a lower-risk option that better protects them from downside risk. Despite the investor having a higher level of wealth on average, if the investor were faced with poor returns in the higher-risk option, they may meaningfully miss their long-term goals.
- Preference for increased consumption over increased bequest.** By default, our approach weighs the utility score more towards consumption than bequest (Lockwood, 2018), but we can adjust this ratio based on investor preferences. This reflects the fact that the primary purpose of saving for most investors is to support later consumption and lifestyle goals. Of course, if they successfully accumulate the wealth needed to ensure those objectives, they will generally leave a bequest behind as well. For a given level of consumption, a bigger bequest is better than a small one. However, additional lifetime spending is generally considered to be of higher utility than leaving a larger bequest.



- Adjustment for personal risk preferences.**  
 The shape of the utility curve (**Figure C3**) varies based on each investor's preferences. All else being equal, an investor with a lower risk appetite will have a flatter, or more convex, curve than a higher-risk investor. Diminishing marginal utility still applies, but adding an extra unit of wealth will result in a different increase in utility depending on an investor's level of risk aversion. This is because a lower-risk investor will place less value on accumulating an extra £1 of wealth knowing they are putting their existing assets at risk by doing so. VFAM incorporates an investor's aversion to risk in the utility score.

**FIGURE C3**  
**The level of risk appetite makes a difference to the utility curve**



**Note:** The label "x" represents an increase of a given amount of wealth.  
**Source:** Vanguard.

## **Investment risk information**

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested. Past performance is not a reliable indicator of future results.

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