BEST-LAID PLANS: HOW YOU CAN MAKE THEM

Your lifestyle should determine who you go to for financial advice

Tony Kaye

HAVING a good wealth strategy is all about planning. But in seeking out the help of a professional financial planner, how do you know who to go with, and who to avoid? Is an adviser aligned to the wealth arm of a major bank or insurance company better or worse than a stand-alone financial planner, and is a planner who calls him or herself independent really totally independent when most derive their income from product commissions?

There are no easy answers and, when it all comes down to it, finding the "right" financial planner is not such a simple task.

This perhaps partly explains why seven out of 10 Australians don't use one, according to research recently commissioned by the Financial Planning Association of Australia (FPA).

A recent report by the Industry Superannuation Network (ISN) found 84 per cent of people wanted stronger laws requiring financial planners to act in their clients' best interests, and only 16 per cent believed advisers were acting in their best interests.

Under law, planners must disclose the commissions they receive after recommending products to clients.

However, at the moment they don't have to disclose if they are receiving company kick-backs, such as discounted margin loans.

"This research demonstrates what has been described as structural corruption is endemic in the financial advice industry, which is driven by sales commissions, and is creating widespread cynicism among the general public," ISN executive manager David Whiteley says.

The ISN is also concerned that only 22 per cent of respondents said they had negotiated a fee with their planner and that 17 per cent did not know how much they were paying for advice.

Marinis Financial Group principal Theo Marinis agrees the industry has a bad name.

"We're not much better than used-car salesmen in a lot of people's eyes, and that's just purely because of the way we're remunerated," he says.

"I think many people in the industry forget that the principal focus needs to be the client, that we should do things that are right for the client.

"It shouldn't be, what can my platform do for me? It should be, what can I do for the client, and everything else flows from there."

Yet, amid allegations of conflicts of interest, particularly around remuneration and commission structures, both the financial planning industry and the federal Government have done a lot in recent years to tighten the operating standards for advisers.

Legislation under the Financial Services Reform Act has raised the bar for educational qualifications and improved the flow of information from advisers to investors.

FPA chief executive Jo-Anne Bloch won't comment on the ISN research, but says her association's own findings are miles apart from it.

"If you actually interviewed clients of financial planners you'll find firstly that they are extremely satisfied with their advice," she says.

"Something like 95 per cent, depending on which survey you're talking about, feel in better control of their finances and they feel much better prepared for retirement."

Australians with a close relationship to a financial planner are more likely to have diverse investments.

The FPA says those with an ongoing relationship hold, on average, 3.8 investment classes.

The number drops to 3.3 for those with an occasional relationship; three for those who no longer use a financial planner, and 2.1 classes for people who have never used a planner.

Regular use of financial planners increases with age, with 56 per cent of those aged 55 years and older making "ongoing" use of a one.

Transparency: Jo-Anne Bloch says fees must be split between a

Ongoing and occasional users of planners have a higher income, with about 47 per cent earning $70,000 and over, compared with 29 per cent of those who have never used a planner.

Of the 30 per cent of Australians who use a financial planner, 13 per cent have an ongoing relationship and 17 per cent use a financial planner occasionally, when there is something to discuss.

According to the Investment and Financial Services Association (IFSA), fees and the method of paying the planner are of little concern to most clients, with more than two-thirds comfortable with the way they pay their adviser.

"The FPA's position on remuneration is that consumers should be offered a choice — 82 per cent of our members offer both fees and commissions as a choice," Bloch says.

"As long as the adviser and the client determine the

PLANNERS IN THE DOCK

Financial Planning Association Complaints and Discipline Report

January 2007 to March 2008

	Westpoint	General	Total
Members investigated	14	116	130
Investigations closed	6	72	78
Investigations ongoing	6	44	52
Members suspended by disciplinary committee	1	2	3
Members expelled by disciplinary committee	1		1
Members suspended under FPA regulations		2	2
Members expelled under FPA regulations	1	2	3
Other sanctions	4		4

Source: Financial Planning Association

dvice and commission, to make it clear to clients what they are actually paying for their advice Picture: David Crosling

remuneration, as long as that remuneration is absolutely clear and transparent, and as long as in the case of a trail commission it can be switched off if you no longer have a financial planner, then we don't see that there's a problem with commission."

She adds that fees must be split between advice and commission, making it straight forward to the client to see what they are actually paying for their advice, as opposed to in the past where it was all wrapped up as one percentage. "It just makes it really clear and really transparent."

Marinis says that at the end of the day, if he can show his clients that he can make them money, then they'll pay for the service he provides.

"Some planners are looking at deals with their dealership and deals with their platform provider, and the client is the secondary consideration" he says.

"When it comes to charging, when it comes to the recommendations we make, when it comes to the advice we give them, you don't see the client as a cash cow.

"You've got a position of power, knowledge that they haven't got — you don't abuse the power but use it to benefit them."

In searching for a financial planner, it's important to check out first that they are properly licensed, which is a requirement under law, as well as their professional qualifications.

The FPA requires its members to adhere to a strict code of ethics and rules of professional conduct, over and above what is required by law. FPA planners must also undertake continuing professional development.

CFP certification is the global symbol of excellence in financial planning. The CFP mark is awarded to individuals who have gone beyond the competency, ethics and professional practice standards required of other FPA practitioner members. It is your money, so it's reasonable when seeing a planner for the first time that you ask them about their experience. If they have only been a planner for a short period, ask if your proposal will be reviewed by a more experienced adviser.

Also, check if the planner specialises in a certain area, such as retirement planning, and whether they will be implementing the plan or referring it elsewhere.

And ask them if their main investment focus is on tax-minimisation, such as through managed investment schemes, or whether your plan will be centred around the creation of longer-term wealth.

Every person has different circumstances, so it's important your planner's approach is in tune with your lifestyle and needs.

Because you are sharing confidential information with your planner, you also need to feel that you can establish a relationship of trust.

Your financial planner needs to be open, well-informed, professional and a good listener. Based on the information you provide, the planner will produce a statement of advice outlining your current position and recommending a strategy for achieving your goals.

A key factor is getting the planner to estimate the cost of their advice based on the work you are asking for and the options for paying.

The planner must, by law, let a client know all the costs and sources of potential income to them arising from the financial plan, including commissions paid from the financial products being recommended.

It's also important to ask how much the planner will charge for ongoing reviews and how often they will be conducted.

You should ask at the beginning what happens if you don't want to accept the planner's advice; at what stage you become obliged to make a payment; and what happens should you want to terminate the planner's services.

IFSA chief executive Richard Gilbert says that financial planners "add tremendous value for investors in terms of carefully assessing an investor's financial circumstances and by providing guidance, discipline and planning strategies to build wealth".

"The key to successful investing is discipline and just as some people need a fitness coach to motivate them and get them into a tailored training regime, a financial planner will help get your savings regime into shape and on track, so that people can reach adequacy in terms of retirement and other savings goals," he says.

"People are more likely to seek professional financial advice as they approach retirement, but engaging with a planner at the front-end of your working life will help you gain both knowledge and confidence when preparing a disciplined savings strategy."

Gilbert says an average couple retiring today will need somewhere in the vicinity of $50,000 a year to lead a comfortable lifestyle in retirement.

"So by sitting down with a financial planner, plotting your likely retirement date on a calendar and working backwards to today, you can both agree on a savings strategy that can help you reach a level of retirement income that is considered adequate."

CHECKLIST

Tips for choosing a planner:

ASK a friend to recommend a financial planner

WRITE down your investment goals beforehand

CHECK the planner's qualifications and experience

BE prepared to ask them questions

CHECK their fees and commissions structure

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