Dear Friends

It's important to test cost and value

In a recent advice review conducted with long term Melbourne based clients (we will call them Anne and Andrew), they shared with me the news that Anne had finished full-time work due to illness (MS). Both Anne and Andrew are in their mid-50s, and although retirement is not an yet an option, they have already made great provisions for this phase of their lives.

Together we identified that their cash flow will be tight for the next few years – but nothing they can't manage. I was delighted to learn they had reviewed all their expenses and saved thousands by negotiating a new mortgage rate, reviewing their energy, telecommunications and data providers and bundling together some services to obtain lower cost packages.

This focus on costs gave me pause to make a periodical assessment – is working with Marinis still good value for money?

In order to review what is charged against what is delivered (i.e. investment costs, advice costs and the added value of that advice) I asked our team to examine the value outcome for a random sample of clients.

Presented in this illustration is the case study of two new, recently referred clients who are currently in their late 40s, running their own plumbing business in partnership. We will call them Jack and Jill They were referred (and personally introduced) by Jill's parents, also Marinis clients for the past 20 years or so.

Jack and Jill's parents also paid the initial 'Statement of Advice' fee on behalf of their daughter and son-in-law. This reassured me about their perception of the value of our advice, as this initial fee generally represents a significant cost in the advice process. It reflects the considerable amount of research and care which must be taken to ensure that a) we have gathered all of the information we need to make an informed assessment of our clients' position and b) that all of our advice is always in our clients' best interests.

The scope of our advice encompassed a review of their current superannuation and insurance arrangements, in line with their goals to accumulate funds for retirement and in the interim, to protect their personal assets.

Superannuation Review

Whilst Jack and Jill's existing superannuation arrangements were not exorbitantly expensive by average industry standards, after running a fee comparison, we found that we could reduce their current fees by $2,927 pa without losing any of the benefits of their current arrangements. The fee outcome is summarised below:

Jill

Existing			Recommended		
Account balance		$272,246	Account balance		$272,246
Administration & Investment Management fees	1.085%	$2,953	Administration & Investment Management fees	0.47%	$1,273

Jack

Existing			Recommended		
Account balance		$168,179	Account balance		$168,179
Administration & Investment Management fees	1.356%	$2,281	Administration & Investment Management fees	0.61%	$1,034

What is also important here is that this annual fee saving of $2,927 pa (which is compounding and growing as their super balances grow) is now being invested into their retirement savings, helping to grow Jack and Jill's super balances by an amount that would otherwise have been lost in fees.

Furthermore, these savings are representative of the percentage and dollar fee savings (in some cases even higher savings) of many of our clients whose superannuation arrangements we have reviewed. This is in an environment where super fund fees (including those in industry funds) are coming under pressure to be more competitive. I am happy to see our clients paying up to half the price (with in most cases, superior functionality) than under their previous arrangements.

Life insurance review

A review of Jack and Jill's existing life insurance cover revealed that they had too much cover in some areas, and gaps in their cover in others. For example, Jack had two income protection policies, even though, if the need had arisen, he would not be able to claim on both. It meant that he was paying premiums for cover that he was not able to use. In other words he was inadvertently, wasting money! At the other end of the scale, Jack and Jill's life insurance cover was not sufficient for their needs.

Our analysis showed that we could retain some of the existing life insurance policies and put in place additional cover for the gaps we identified.

By taking over the servicing arrangements of the existing (retained) life insurance policies and rebating 100%* of the ongoing commissions on these and the new polices, we have been able to save Jack and Jill a further $4,888 pa in life insurance premiums (savings which again, increase each year as the premiums increase with age).

At this point, total combined annual savings for Jack and Jill (before advice fees) are $7,815 pa.

Advice review

Even after our annual service fee cost, Jack and Jill's net savings each year start from at least $3,519 pa. They are now fully insured **and** invested in line with their individual investment risk profiles, as opposed to being lumped into a 'default' asset allocation under an industry fund arrangement.

To give industry super funds their due, they originally 'upped the ante' on fee competitiveness, and they remain a great starting point for people to begin accumulating retirement savings. However, they are no longer always the most cost-effective alternative.

This lack of cost effectiveness is amplified if the opportunity cost of a 'set and forget' approach to super is taken into account. Eventually, super fund members reach a life stage when they need strategic advice, and this is where a relationship with an adviser has the potential to add real value.

Because I hold the philosophy that higher fees and costs are **'baked out'** NOT **'baked in'**, Jack and Jill also have the option, if they feel that we do not continue to provide a valuable service, to disengage# with us, removing our ongoing adviser fee and retaining their fee savings of $7,815 pa.

But we are not done yet!

In the meantime, we will review Jack and Jill's position annually. Post COVID-19, when they are in a stronger financial position, we will implement our recommended super strategies which have the potential to save them as much as an additional $9,750 pa net of tax, whilst boosting their super balances as they begin to approach retirement age.

Our commitment is never to recommend any strategy where we can't demonstrate to our clients that they will be significantly better off, net of all fees, by following it in the medium to long term. Our focus is always on the quality of our advice, not just lower fees.

What Marinis really provides though, is financial peace of mind. We are paid to understand how to navigate the constantly changing legislative complexities around the superannuation, taxation and social security systems, and to find the best and most cost-effective tools to help our clients meet their financial goals. Fortunately, most people recognise the financial cost saving and the emotional security of having a financial adviser.

The constant rule changes made by successive governments has resulted in superannuation becoming far more complex than it should be. (If you would like to read more on this subject, please click here for the link to my recent article in Alan Kohler's InvestSMART magazine.)

Returning to Anne and Andrew for a moment, Andrew currently holds the basic qualifications to enter the financial planning industry, which would at least allow him to manage his own financial affairs. I asked him why he still uses Marinis as his advisory practice. His response: "I don't know what I don't know." I think Andrew has been reading my eGrows for too long!

And one more thing:

By the time you read this edition of eGrow you will be thinking ahead to Christmas and the holiday season. This is traditionally a time of reflection and decision making. Make sure you let us know if you are planning to do anything significant, such as retirement, downsizing etc – as there are so many ways that these decisions can be maximised financially.

Media:

If you would like to see my recent media comments, please click here - or keep an eye on marinisgroup.com.au.

As always, if I or any of the Marinis team can be of assistance, please do not hesitate to contact us via admin@marinisgroup.com.au or (08) 8130 5130.

Kind Regards,

Theo Marinis B.A., B.Ec., CPA., FPA®
Financial Strategist
Authorised Representative

GROW @ Marinis

Financial Strategies (SA) Pty Ltd | **ABN** 54 083 005 930
Trading as **Marinis Financial Group** | Australian Financial Services Licence No: 326403

P 08 8130 5130 | **F** 08 8331 9161 | **E** grow@marinisgroup.com.au
A 49 Beulah Road, Norwood SA 5067 | **W** marinisgroup.com.au

**Marinis have had a 'zero commissions' policy for life insurance advice in place since 2012, but even now, very few practices employ a zero commissions policy. (Although I note that the federal Labor Party is proposing to remove all life insurance commissions if they win the next election. If they proceed on that basis, our clients will have already been saving for a decade)!*

#It is a simple matter to disengage from a financial adviser. Simply write to them, or the platform manager, to advise them of your decision.