The Financial Planning Process

Financial Desk
National Seniors Australia

Retirement Planning

If you are about to retire or face other major life events you are no doubt being confronted with a lot of new information and some difficult financial decisions. You may wish to seek advice from a financial planner or design your own plan.

> "...start by sorting your money according to your needs and selecting appropriate investments..."

If you decide to develop your own financial plan you should start by sorting your money according to your needs and selecting appropriate investments to meet those needs. Obviously, your plan will differ from others' as it will depend on your current financial position and your future objectives.

There are many issues you will need to consider.

Your Current Financial Position

- Assess what assets you own - home, contents, car etc. - their market value and their replacement (insurance) value.
- Assess how much your current investments - money in accounts, shares, managed investments, investment property etc. - are worth.
- Assess your liabilities - how much you owe.
- Find out what retirement benefits you will receive when you finish work, including the current value of any existing superannuation as well as current and future contributions.

Your lifestyle aims and objectives

Consider the things you want to achieve in your retirement and your desired financial situation in 5, 10 or even 20 years. If you intend to travel you will need to plan for these expenses. Once you have assessed your current financial situation you can start to develop a financial plan based on your lifestyle aims and objectives. Your financial plan should consist of three parts.

Part A. Regular Income

This is the most important part of your financial plan. Estimate how much regular income you require, taking into account regular expenses such as food, rent, clothing, telephone bills, rates, insurance, electricity, heating as well as mortgage or other debt repayments if applicable. Consider using your savings to minimise expenses by paying off or reducing debts. This will effectively reduce the amount of regular income required.

> "Estimate how much regular income you require, taking into account regular expenses..."

Money used to meet these expenses should come from regular secure sources such as your and/or your spouse's wage, investments, Income Stream products or from Government Income Support (GIS) payments.

There are several income stream products which may be suitable to generate income in retirement which can be 'account based' or 'non-account based'. For more information on retirement income streams refer to our fact sheets 'Account Based Income Streams', 'Introducing Immediate Annuities' and 'Retirement Income Streams – a comparison'. Investment products which may also be suitable to generate income include fixed interest investments, term deposits, shares, property or *managed investments*.

Part B. Cash Reserve

You should keep money for unforeseen expenses easily accessible. The amount of money you require will depend on your circumstances. You are the best person to estimate the amount of money you may need for unexpected expenses.

Part C. Capital Growth

If you have money left over after providing for living expenses and reserves you should consider setting aside some money for long term investment. This money should be placed in investments that have potential to grow. It is essential that any investments you make are appropriate for you. The level of acceptable *risk*, taxation, Government Income Support implications and potential to achieve your goals should all be taken into account.

Investing Wisely

Diversify your investments

This means spreading your money across a range of investments. You should avoid putting all your money into one type of investment.

Match Investments and Timeframe

The types of investments you choose should depend on the length of time for which you plan to invest. If you are prepared to invest your money for the long term, e.g. 10 years, then you should be able to accept short term unrealised losses in exchange for expected greater long term returns.

Liquidity

Ensure adequate funds are available to cover short term expenses and allow flexibility for unexpected costs if possible.

Balance Risk and Return

You need to work out how much risk you are prepared to take. Generally, the higher the expected return the higher the risk. Ask questions until you understand the risks involved. Some investments may be volatile in the short term but provide sound returns over the longer term. For more information refer to our fact sheets: '*Safety, Risk and Scams*' and '*Risk Meter*'

Taxation

Tax planning is an important issue for investors. Investments should be purchased to suit individual needs and objectives and not only for any perceived taxation benefit.

Government Income Support (GIS)

You may be eligible for assistance from the Government. You should check with the Department of Human Services Financial Information Service (FIS) or the Department of Veterans' Affairs local office for more information. The publication 'A Guide to Australian Government Payments' gives details of asset and income limits for payment eligibility. Visit www.humanservices.gov.au.

Checklist of Financial Planning Considerations

- [ ] List the assets and liabilities you currently have.
- [ ] Consider paying off any debts you may have.
- [ ] Calculate the amount of income you need for basic living expenses.
- [ ] Determine how you are going to provide this income.
- [ ] Plan for travel, home requirements and other lifestyle expenses.
- [ ] Ensure you have a reserve of money in case of unforeseen circumstances.
- [ ] Place cash reserves into low risk investments.
- [ ] Excess money may be placed in growth investments, as appropriate.

Not all steps may be necessary but should still be considered.

Legal Requirements

Licensed providers of financial advice and their Authorised Representatives have legal obligations when making recommendations. Recommendations must be based on appropriate consideration and investigation of the investor's needs, objectives and financial situation.

Disclosure and other requirements

Advisers must fully disclose to investors particulars of any fees and/or *commissions* if applicable they or their associates will or may receive, whether in cash or other incentives. Furthermore they must disclose any other interest that is capable of influencing their recommendations.

As from 1 July 2013 commissions are banned on new investment products and superannuation. Commissions are only payable on Insurance products or investment products purchased prior to 1 July 2013 where the adviser has been receiving commissions.

Investors should be provided with sufficient information to enable them to fully identify who they are dealing with, the relationships, if any, that may exist between the adviser and the product provider as well as all costs the investor will incur in accepting the adviser's recommendations.

> “...commissions are banned on new investment products and superannuation...”

In addition to the above requirements, regulations require licensed providers of financial advice to retail investors to:

- give to every client who agrees to receive investment advice a *Financial Services Guide* (FSG) at the earliest possible opportunity (see Financial Services Guide)
- have in place internal complaints-handling procedures (see Dispute Resolution)
- be a member of an external complaints resolution scheme approved by the Australian Securities and Investments Commission (ASIC) (see Dispute Resolution)
- give a clear warning to an investor when the investor has not given relevant personal information. The warning must:
    - state that the licensee has not been able to undertake a comprehensive financial needs analysis for the investor;
    - set out the limitations on the appropriateness of the recommendation as a result of the lack of relevant information; and
    - state that the investor should consider whether the recommendation is appropriate to their particular investment needs, objectives and financial circumstances.
- give a clear warning when they provide *general securities advice* to an investor. The warning must state that:
    - in preparing the advice, the licensee did not take into account the investor's needs, objectives or financial situation; and
    - before making an investment decision on the basis of the general securities advice, the investor should consider the appropriateness of the advice to their individual needs, objectives and financial circumstances.

Financial Advice reforms

Reforms to the financial planning industry, known as Future of Financial Advice (FoFA), aim to improve the trust and confidence of Australian retail investors in the financial planning sector..

"...reforms now apply and include a prospective ban on conflicted remuneration structures..."

The reforms now apply and include a prospective ban on conflicted remuneration structures including volume based payments and commissions in relation to advice and the distribution of retail investment products. More specifically the ban covers:

- Up front commissions, trailing commissions and like payments for new clients from 1 July 2013.
- Any form of payment relating to volume or sales targets from any financial services business to dealer groups, authorised representatives or advisers, including volume rebates from platform providers to dealer groups.
- Soft dollar benefits where a benefit is $300 or more (per benefit). This does not include benefit provided for professional development and administrative IT services if set criteria are met. Grandfathering provisions apply to arrangements with existing clients prior to 1 July 2013. The ban does not apply to certain life risk product arrangements, General Insurance only, advice on basic banking products only, financial product advice provided to wholesale clients and advice where clients pay a benefit to the provider such as a 'fee for service' arrangement.

Other reforms include

- Financial Planners must abide by a 'best interest' statutory fiduciary duty. Financial Planners must take reasonable steps in placing the 'best interests' of their client above their own when providing advice to their clients.

  (Scaled advice permits the planner to tailor the advice to the client's circumstances)
- From 1 July 2013 advice providers must give their clients a fee disclosure statement that outlines fees paid and services delivered during the previous year. Any on-going fee may be charged only if the client opts in to continue the fee arrangement and it needs to be reviewed after 2 years. The 'opt in' arrangement applies unless ASIC is satisfied the licensee or authorised representative is bound by a code of conduct that obviates the need for complying with the 'opt in' requirement of the Act.
- Restrictions apply to the use of the terms financial planner and financial adviser. The exemption for accountants providing advice on establishment of Self-Managed Super Funds (SMSF) without the need for an Australian Financial Services Licence (AFSL) ceased to apply from 1 July 2016. Any accountants or planners seeking a new limited AFSL have to apply to ASIC for authorisation. Accountants who operate under this new form of AFSL are subject to all FoFA measures such as the 'best interest' duty. ASIC have powers to suspend or cancel an AFSL, or to make an order banning a person from providing a financial service on the basis of anticipated future conduct. For more information on the reforms and current regulations refer to the ASIC website www.asic.gov.au .

Financial Services Guide (FSG)

"A FSG is designed to promote investor protection..."

A FSG is designed to promote investor protection by ensuring investors are provided with sufficient information about the costs, services and alliances of a licensed advice provider. A FSG should answer the following questions:

- Who is my adviser?
- Who will be responsible for the advice given to me?
- What advisory services are available to me?
- How will I pay for the service?
- What will I pay in fees?
- Is there room for negotiation on fees?
- How are the fees calculated and deducted?
  - Do I get information about actual benefits my adviser receives from making the recommendations? and
  - Who can I complain to if I have a problem about the advisory service?

ASIC consider it is best practice for advisers to provide an investor with a FSG before providing any investment advisory services or entering into formal arrangements to obtain such services. Investors should take sufficient time to read and understand the information in the FSG before deciding whether to accept or proceed with an adviser's recommendations.

Selecting a Financial Planner

Investing for retirement will require you to make some of the most important financial decisions of your life. There are many investments available for purchase. Not all will be suitable for your particular situation.

Financial planners are people who may be able to help you choose the right investments and create appropriate strategies to achieve your financial goals.

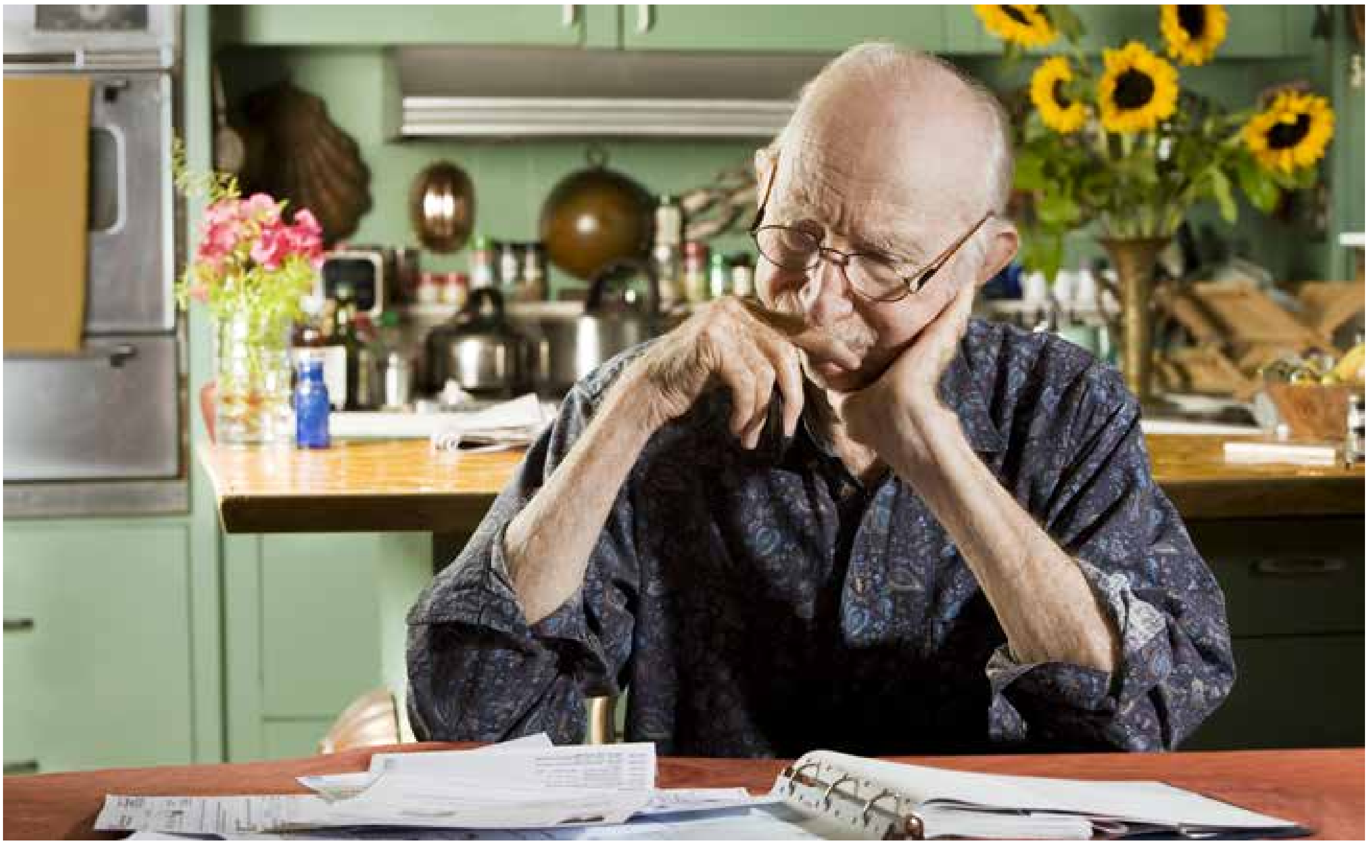
“There are many investments available for purchase. Not all will be suitable for your particular situation.”

Financial planners are authorised by holders of an Australian Financial Services Licence (AFSL) or an Authorised Representative. They often operate through dealer groups. Dealer groups range from ‘institutional’ to ‘boutique’.

Institutional dealer groups typically include banks where planners usually operate from bank branches and work to bank provided supervision, compliance and direction. Other large planning groups may operate under a franchise or agency arrangement owned by a large financial institution that provides supervision and compliance as well as allowing some autonomy. They often have access to a more diverse range of products.

Boutique dealer groups often specialise in a particular segment of the community. They have an independent approach when making recommendations and they often have a broad range of products they can offer. Boutique dealers generally rely on internal practices and self discipline for their supervision and compliance.

Selecting a planner is an important decision. You should choose a planner you feel you can work with and can trust. Remember that financial planners earn their living by giving advice and selling products. They generally receive payment from fees charged directly to you, either on an hourly basis or as a percentage of the value of your investments..



Checklist to Use When Choosing a Financial Planner

> “The best advertisement a financial planner can have is a recommendation from a satisfied client...”

Financial planners are listed in the Yellow Pages and the websites of their professional associations including the Financial Planning Association (FPA) www.fpa.asn.au, the Independent Financial Advisers Association of Australia (IFAAA) www.ifaaa.com.au and the Association of Financial Advisers (AFA) www.afa.asn.au. The best advertisement a financial planner can have is a recommendation from a satisfied client so asking friends, relations or colleagues may provide a good referral.

It is worth checking if the FSG given to you has answered the following questions and, if not, seek clarification from your prospective financial adviser.

1. Do you or your organisation have at least five years experience in financial planning?
2. Does your organisation hold an AFSL or are you or your organisation an authorised representative of a licensee?
3. Does your licence restrict the range of investments you can recommend?
4. Is your organisation free of any obligation to place funds with a particular investment company?
5. Do you or your organisation have *professional indemnity insurance*?
6. Do you provide a written *Statement of Advice (SoA)* showing all advice, investment fees, and the total cost to me?
7. Is there a fee to get a SoA?
8. Does your written SoA explain the GIS and taxation implications of the recommended strategies and products?
9. Does your written SoA show the risk potential of investments recommended and match them to my risk profile?
10. Is there any room for negotiation on fees?

Finally: Are there any other fees or charges about which I have not been told?

If the answer to any of these questions does not satisfy you, contact another financial planner.

‘Statement of Advice’ (SoA) referred to in this document can also be referred to as a ‘Financial Plan’.

Process of Choosing a Financial Planner

Research Financial Planning Options

- Consider planning organisations ie. Institutional, Boutique
- How do they charge? Obtain the FSG if possible
- Seek references

Shortlist 3 or 4 organisations and/or planners

- Telephone interview
- Make an appointment with 2 or 3 planners

At initial meet and greet interview

- Gain an understanding of their processes, charges and contacts
- Determine whether you like them
- Collect FSG if not already obtained

Financial planning interview - make appointment with 1 or 2

- Allow for extended interview
- Take all relevant paperwork and personal information

The Advice Given Should:

- Be in writing and without obligation to proceed.
- Disclose all *entry fees, exit fees* and any other costs to you in dollar terms.
- Take into account GIS and taxation implications.
- Include the exact reasons for selecting the proposed investments, showing how they meet your needs and objectives.
- Clearly state your risk potential.
- Provide for ready cash reserves.
- Spread your investments between product types and investment market sectors according to your risk profile.
- Indicate the level of income to be generated and match your income needs.
- Where a recommendation is made to transfer an investment from one product provider to another the reasons for the transfer and any costs should be stated.

Providers of Financial Advice

Australian Financial Services Licensee (AFSL)

The Financial Services Reform Act (FSRA) requires all providers of financial advice to hold an AFSL or be an Authorised Representative of a licensee. As well as covering new entities, AFSL replaced previous licences for insurance brokers, securities dealers, futures brokers and futures advisers.

"...it is your money so when selecting a financial planner don't be shy to ask questions..."

A holder of an AFSL may:

- provide financial product advice
- deal in a financial product
- make a market for a financial product
- operate a registered scheme
- provide a custodial or depository service

Authorised Representative

Authorised representatives may be businesses or individuals who have been given authority by the holder of an AFSL to give advice on and sell their products.

Authorised representatives may hold authority from more than one licensee.

Other Considerations:

You should also satisfy yourself on a range of other issues before choosing to deal with a financial planner.

- Ask to see a copy of their *letter of authority.*
- Ask if they are limited in the products they can recommend.
- Ask what qualifications they have in financial planning.
- Ask what source of research they use.
- Ask if they offer an ongoing service for monitoring the plan/portfolio and what fees are charged for the service.
- Ask if the planner will give advice which is suitable to your investment needs and financial circumstances.
- Ask what risks are involved with the investments or investment strategies recommended.
- Ask what information the planner maintains in your file and whether you can examine your file.
- Ask if you can instruct the planner to buy or sell your investments. Always remember, it is your money so when selecting a financial planner don't be shy to ask questions. It may also be wise to obtain statements of advice from more than one financial planner before investing your money.

Your Financial Plan Interview

> ...it may be necessary to seek advice from more than one planner...

If you have decided you need the assistance of a financial planner and have satisfied yourself that the fees etc. are acceptable, you should prepare for your financial planning interview. The following is a guide to the information you may need to provide a financial planner at your interview.

It also covers the types of questions you can expect to be asked by a financial planner and the types of issues you need to think about before the interview.

To receive a financial plan that suits you and which you can be comfortable with, it may be necessary to seek advice from more than one planner. When consulting more than one planner ensure you provide the same details (including lifestyle requirements) to each financial planner.

This will enable you to compare the SoAs prepared.

There are many providers competing for your money so remember to look for the products that are most suitable for you.

It is Your Money and the Ultimate Decision is Yours

Information Required

To assist your financial planner in making a worthwhile plan you need to give at least the following information:

- Your basic living expenses
- Details of your current income, including Government Income Support (GIS), superannuation payments, annuities and other income;
- A copy of your last tax return and Notice of Assessment;
- Details of all your loan facilities and investments, including bank, building society and credit union accounts and funds available for investment;
- If you have investments that are not available for re-allocation give full details about them;
- Your planned expenditure, e.g. money required for a holiday, new car, gifts, house maintenance etc.;
- An indication of the amount of investment risk you are willing to accept, if any;
- Insurance details such as life, Total and Permanent Disablement (TPD), income protection and general.

Remember to take the relevant documents to your interview, to ensure full and correct details are given. This should include details of any investments held by a partner or in trust if applicable.

The more accurate the information you provide, the more likely the planner can produce a plan that should meet your needs and objectives.

Remember this interview is for fact finding and you should not have to place investments at this stage. The only document you may need to sign is to confirm information provided is correct and request to prepare a SoA.

What Questions Might a Financial Planner Ask?

For a financial planner to give you the best possible advice they need to understand your aims and your current situation.

So as well as providing the basic particulars and documentation previously detailed, you could expect to be asked the following:

> "For a financial planner to give you the best possible advice they need to understand your aims..."

- Do you own your home?
- Is there a home loan outstanding?
- Do you have any other loans?
- Is your home in good repair or does it require maintenance?
- Do you have dependant children?
- Do you require funds to cover any immediate expenses?
- What do you wish to achieve from a financial plan, i.e. your lifestyle objectives? For example, a higher income, tax efficiency, increased pension entitlements, a secure and regular income etc.
- To whom do you wish to leave your possessions (estate) upon your death?
- Do you have a current Will and an Enduring Power of Attorney?
- Are you likely to receive any inheritances?
- Do you have adequate insurance on your home, contents, car and yourself?
- Would you accept fluctuations in the value of your investments for a long term gain i.e. How much risk are you willing to take?

Other Considerations

- Interviews may take longer than you expect. Allow enough time for the interview especially if travelling by public transport.
- If travelling by car, allow plenty of parking time as interviews and/or plan presentations can be lengthy.
- Ensure you address Estate Planning issues such as updating you Will, considering the need for an Enduring Power of Attorney (EPA) and considering the establishment of a Testamentary Trust when appropriate.
- An ideal situation is to remain debt free throughout retirement but this is not always possible.
- As many financial institutions do not lend money to pensioners, retaining credit cards or other arrangements, provided you can control spending and afford the costs, may be an advantage. Equity Release products are an alternative and are becoming more common with retirees. They can provide access to money or create an income stream (see our booklet *Accessing the Equity In Your Home*)

Checklist

Take the following along to your initial interview with a financial planner.

- ☐ Details of your needs & objectives
- ☐ Your basic cost of living expenses
- ☐ Details of current income for you and your spouse:
    - superannuation;
    - Government Income Support;
    - employment income;
    - income from other investments e.g. bank accounts, annuities etc.
- ☐ Your last tax return & assessment
- ☐ Details of current investment and credit facilities including those that are not subject to re-allocation/repayment
- ☐ Details of all loan facilities
- ☐ Insurance details

Understanding Your Statement of Advice (SoA)

"Once you have received your SoA you should take time to study it."

The planner and adviser should sign the completed SoA. Once you have received your SoA you should take time to study it. The following is a guide to help you understand the plan and decide if it meets your needs and objectives.

Written SoAs vary substantially from planner to planner but there are five basic points that should always be covered in a well presented SoA.

- Plan objective
- Strategy
- Plan Detail
- Recommended Investments
- Recommended Action

Remember: The advice is your investment strategy. While a financial planner can assist with recommendations, the risks and final decision are yours. You should ensure:

- you fully understand the risks associated with each investment;
- the risk level is acceptable to you;
- the investments recommended in your SoA meet your needs and objectives.

Ask questions until you fully understand the SoA. You should be comfortable with the SoA before proceeding.

Plan Objective

The plan objective should state what it is seeking to achieve and re-state information you provided to the advisor. This is to confirm they have worked with the information you provided.

Strategy

The strategy should show how the advice will meet your needs and objectives and how it is in your best interest. It should take into account your basic living needs including:

- sufficient income provided on a stable basis to meet your daily living expenses;
- enough money to be available for planned major expenses;
- adequate easily accessible money to cover unforeseen expenses. This is an important part of any plan.

In addition, your plan strategy should review your retained investments as well as give a summary of recommended new investments.

Plan Detail

The detail in your SoA will vary between planners but should cover:

- estimated net income;
- appropriateness for your needs;
- fees and charges in dollar amounts;
- GIS implications;
- estimated tax liability;
- amounts to be invested in growth and/or income producing investments;
- insurance;
- estate planning.

Recommended Investments

This section of the plan should cover specific recommendations and relevant information about the investments or refer you to the information in the Product Disclosure Statement (PDS) including:

- the name of the investment and the product provider;
- a brief description of the investment;
- the amount recommended for investment;
- the risk factor (level of *security*);
- the projected income and/or growth for each investment. Past performance is no guarantee of future performance as large fluctuations can occur;
- details of any guarantees;
- fees to be charged for placing investments;
- early withdrawal conditions and exit fees;
- on-going *management fees*.

(note: the above fees and planner remuneration may be mentioned in the plan detail)

Recommended Action

This section should clearly detail how you can proceed with the recommendation. Always read the documentation carefully - take it away with you and consider it at your leisure. Never sign on the spot.

Security and Risk

When assessing your SoA it is essential to understand the security of the investments chosen i.e. their risk. In its simplest form risk can be defined as “the chance of loss”.

When applied to investments, risk is the combination of:

- the measure of the possibility of a market downturn causing a serious devaluation or loss of your money; and
- the chance of lower than expected or no earnings from the investment. Different investments have different levels of risk. You should be aware that the higher the expected return, the higher the risk. You should look at the risk of each investment and consider if both poor earnings, as well as loss of your money, are possible. Generally, losses in value of an investment will be recovered in time with the recovery of the market. Investors are fully aware that share and property investments can rise and fall, but not many are aware that investments such as debentures, government bonds and other fixed interest investments can carry substantial investment risks.

> “...it is essential to understand the security of the investments chosen...”

The risk associated with debentures is not necessarily a loss of capital but the loss of regular income if the borrower defaults on the loan. The capital and interest are generally recouped at a later date through the realisation of the security held.

Government bonds and other fixed interest investments may be sold on the fixed interest market. If the owner requires their capital before maturity it is necessary to sell the investment on the open market. Depending on which way interest rates have moved the investor may make a profit or loss.

You may invest in direct investments e.g. Shares and bank accounts, or invest through a managed (pooled) arrangement e.g. master trusts, unit trusts etc., where the investment decisions are made by the investment funds’ managers.

" It is essential to fully understand all risks associated with any investment... "

To understand the risks of managed investments it is necessary to know what the underlying investments (assets) are – i.e. what you are ultimately investing in - and the risks associated with them. As there may be a blend of asset classes, their interaction should also be taken into account.

An aspect of investment risk in managed funds is that the manager may change the nature of the fund. For example an investor may have chosen an investment fund for its specific asset allocation or investment strategy but over time the investment manager has significantly changed the investments held by the fund resulting in either a higher or lower return than was expected. Investors should check with their investment adviser or fund manager if the actual return varies significantly from the expected return. A term widely used is 'has the fund remained true to the label?'

There are five basic asset classes: cash, fixed interest, equity (share ownership), property and international assets. While the risk varies for each asset class, within each asset class the risk level can also vary from low to high depending on market behaviour, company management or the investment managers' preferences.

It is essential to fully understand all risks associated with any investment recommended, as it is you, not the planner or anyone else, who suffers the losses when they occur.

For further information see our publications *'Safety, Risk & Scams'* and *'Risk Meter'*. Refer to our Investment Product Series leaflets for the particular investments in which you are interested, e.g. *'Shares', 'Equity Trusts'*, etc.

Choices in Paying for Financial Advice

The two most common ways in which financial planners receive payment for their services are through:

- Percentage based fees
- Fee for service

Some planners offer a combination of the choices. Before deciding on a financial planner, the method of charging fees and the approximate cost should be known to enable you to make comparisons. (*See FSG*)

> “...the method of charging fees and the approximate cost should be known to enable you to make comparisons.”

Percentage Based Fees

The financial planner charges a scale of fees based on the total money available to invest. For example, the amount paid to a planner might be a rate of 1.5% of the funds invested and 1.5% per annum on the value of the portfolio. Under the Future of Financial Advice (FoFA) reforms, percentage based fees are banned on borrowed (geared) amounts used for investment.

The planner should receive the same payment regardless of where money is invested. Some Percentage Based planners may charge a fee to produce the SoA and refund it on implementation of the recommended investments.

Fee for Service

The fee for service method is similar to the method other professionals use when charging for their services, e.g. solicitors or accountants. The overall fee depends on the time taken and complexity of the plan. You are charged whether the recommendations are accepted or not. The charge varies considerably between planners and may be based on an hourly rate for the actual time spent or a fee per plan. For example, if the financial planner charges a fee of $220 per hour for their services and it takes them ten hours to formulate and prepare a written SoA the fee paid will be $2,200. Fees could also include time actually spent placing the investments.

Under this method the planner earns the same regardless of the amount, the performance or where your funds are invested.

As mentioned previously Commission Based remuneration for Financial Planners has been banned for new client activity from 1 July 2013. Commission based income is considered ‘conflicted remuneration’ which is banned under the FoFA reforms. Commission based arrangements may still apply where products/recommendations were taken prior to the FoFA implementation.

Avoid Confusion

When seeking investment advice you should expect to pay for the service and for professional expertise. The question is not whether you should pay but how much assistance is required and how much is reasonable to pay for the service provided. In some cases planners may be able to reduce or rebate certain fees so don’t be afraid to ask or negotiate.

Paying for financial advice and planning should not be confused with fees paid to the *Responsible Entity* to enter, exit or remain in the investments. Details of fees charged by the *Responsible Entity* on your investments are detailed in the PDS or prospectus.

These should be taken into consideration when assessing the suitability of a particular investment product.

Online Suppliers

Accessing investments online may offer another alternative which may reduce your fees although you do not receive any advice or recommendations. The services/investment options offered may vary and you should investigate them fully.

This is a good option for investors who know what they want to do and only need assistance to place the investments.

Disclosure of Fees

All fees and costs should be clearly disclosed in both the SoA and the PDS.

On-Going Commissions and Service Fees

Planners may offer ongoing monitoring and servicing of your investment portfolio after implementation. You should consider how much assistance you require and how the planner charges for this service to determine if you require this service.

Prior to the implementation of FoFA, planners often received trailing commissions to cover ongoing service costs. From 1 July 2013 ongoing client service arrangements must be outlined in an annual Fee Disclosure Statement (FDS) along with the services provided. To continue the arrangement you will need to opt in to their ongoing service agreement every two years unless ASIC is satisfied the planner is bound by an acceptable code of conduct that obviates the need to comply with the ‘opt in’ requirement.

If investing in a product which will pay you a monthly income, e.g. Account Based Income Streams, you should ask whether there will be an administration fee for making payments. This usually applies where a cheque is posted instead of directly crediting an account.

Remember, ultimately all fees and costs are paid from your pocket.

“Remember, ultimately all fees and costs are paid from your pocket.”

Estate Planning

Estate Planning is not always addressed by financial planners. Having a valid and current Will is an important component of your financial plan. A Will is a legal document which indicates how you wish to distribute your belongings after your death. If you do not leave a valid Will the law decides how the distribution will occur.

A Power of Attorney (PoA), of which there are several forms, is a legal document that allows another person to act on your behalf to ensure essential matters are attended to when needed. The trusted person may be a family member, friend, legal representative or public trustee. Further information on Wills and PoA are available from your legal representative.

See our publication '*Estate Planning – things to consider*'.

Dispute Resolution

All AFS licensees and authorised representatives are required to have in place appropriate internal means of handling their customer disputes.

Licensees are also required under the Corporations Law to join an External Dispute Resolution scheme approved by ASIC. This is designed to provide consumers with a relatively quick and cost effective means of resolving complaints (See our publication *Dispute Resolution Schemes*).

Glossary

Account Based Income Streams (ABIS) – *an investment offered for structured draw down of accumulated superannuation to provide income in retirement. These were previously referred to as Allocated Pensions or Allocated Annuities*

Commission - *money paid by an organisation to an intermediary for placing /retaining investments with that particular organisation*

Entry fees - *fees charged to set up an investment. Usually charged as a percentage of the money being deposited and deducted from the investment*

Exit fees - *fees charged to withdraw money (or redeem units) from an investment. Usually charged as a percentage of the amount being withdrawn and deducted from it or the balance remaining*

Financial Services Guide (FSG) - *a document detailing relevant information about the financial advice provider and the services being offered*

General securities advice – *broad recommendation of investment market or type of product that should be used*

Immediate annuities - *an income stream product offered by insurance companies that provides a regular income over an agreed period in exchange for a lump-sum payment*

Letter of authority - *authorisation from licence holder for advisor to act on their behalf*

Managed investment - *professionally managed funds that pool money of numerous investors (for example unit trusts and insurance bonds) to create a portfolio and manage it in accordance with the PDS*

Management fees - *fees charged on the total value of the investment for administration services etc. normally deducted before earnings are added to your account*

Professional indemnity insurance – *an insurance policy that covers advisers in the event of negligent advice*

Responsible Entity - *following the passing of the Managed Investment Act the positions of Fund Manager and Trustee were replaced by a single Responsible Entity. In managed non-superannuation funds the position is known as a Responsible Entity while in superannuation funds it is known as a Trustee*

Risk - *chance or possibility of loss, or not getting the return you expected*

Security - *the safety of an investment*

Statement of Advice (SoA) - *the document that explains the advice including the strategy and products recommended, the remuneration of the adviser, the information on which the advice was based and any interests or associations which may influence the advice.*

National Seniors Australia (National Seniors) is a not-for-profit organisation that gives voice to issues that affect Australians aged 50 years and over. It is the largest membership organisation of its type in Australia.

The Financial Information Desk (FID) is an independent, confidential service funded by National Seniors that aims to improve the investment information available to older Australians

Our Objectives

- To provide an accessible, independent and trustworthy source of information for older Australians - particularly those with modest means.
- To promote industry and community awareness of consumer investment issues - particularly amongst older Australians.
- To promote industry understanding of consumer investment issues and to contribute to the raising of industry standards.
- To examine any unfairness in the market between consumers and providers of investment services and to provide information to consumers on dispute resolution processes.
- To represent the views of consumers on investment issues to industry and government organisations.
- To research and publish items on consumer issues relevant to the financial welfare of older Australians.
- To liaise with relevant consumer, community, academic and industry groups, as well as government organisations, to further these objectives.

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