

## Seven Fast Facts on Financial Advice (Including Three Case Studies)

May 2008

### 1. Australians have the largest levels of personal investment in the world.

At the end of 2006, Australians each had an average of \$50,738 invested in managed funds. This compares to \$41,496 in the US, \$34,757 in France and \$23,505 in Sweden. Thanks to super, Australia's individual investments are growing at a faster rate than any other country, more than doubling since 2001.

Investment Companies Institute, US

### ...But we still fall far short of the investment needed for a comfortable retirement

A couple retiring today require \$48,648 per annum to live a 'comfortable' lifestyle. In order to generate this level of annual income, a lump sum at retirement of approximately \$600,000 or more is required. However, the average super balance for those in the 60-64 age bracket is only \$202,600.

Westpac-ASFA Retirement Standard research report  
Rice Warner's Superannuation Market Projections

### 2. There's a distinct lack of engagement in super and even those approaching retirement feel woefully unprepared...

11% of baby boomers have not given much thought to retirement and have made no preparations, 24% have given some thought to it but made very little preparations and 44% have made some but 'not enough' preparations.

Mercer Wealth Solutions, Simple Super Research, 4<sup>th</sup> May 2007

### ...this is partly due to the fact that Australians don't think of themselves as investors...

'Most investors [surveyed] did not see themselves as investors; rather they felt they were simply saving for their future/retirement – most felt that an investor is someone who invested on a full time basis.

ASIC Investor Research, Consultation Paper 89, August 2007

### ...and partly because they lack the knowledge and confidence to engage in super.

Compared to other money management issues tested, Australians say they are not confident and would like to learn more about investing and ensuring they have enough money for retirement.

Financial Literacy Foundation, Australian's Understanding Money, September 2007

### 3. In terms of gaining knowledge, Financial Planners and Accountants are the preferred source of information...

82% of Australians said that their preferred source of financial information and advice is a financial planner, followed closely by Accountants at 81%.

Financial Literacy Foundation, Australian's Understanding Money, September 2007

### ...and as people approach retirement they are more likely to seek professional help.

Only a third (32%) of baby boomers have not engaged with either an accountant, personal banker or a financial planner in the last 12 months.

Mercer Wealth Solutions, Simple Super Research, May 2007

### 4. Almost one third of Australians use the services of a Financial Planner...

In total almost 30% of Australians currently use the services of a Financial Planner. This increases with age from just 10% of those aged 16-24 years, 27% of those aged 25-34, 32% of those aged 35-49 and 37% of those aged 50+ years.

Galaxy Research prepared for the FPA, May 2008

### ...and as a result they are more likely to feel prepared for retirement.

84% of those that have seen a planner in the last 12 months say they are very or fairly confident that they will have enough money to retire comfortably. This compares to 57% among those that have not seen an adviser at all.

Nielsen Research Commissioned by ING Australia, 2007

### 5. For those with a Planner, they get more than just 'product' advice...

Four out of five of those currently seeing a Planner agree that their adviser has given them greater:

- understanding of finances;
- knowledge and education about investment options;
- confidence that they'll achieve their lifestyle and financial goals; and
- confidence that they are prepared for retirement.

IFSA/TNS Investor Sentiment Research November 2006

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**...,and they're generally happy.**

94% of those currently seeing a Planner say they are satisfied with them. The satisfaction level increases with the level of contact the investor has with their Planner.

IFSA/TNS Investor Sentiment Research November 2006

**6. Fees and the method of paying the Planner, is of little concern to most...**

67% say they are comfortable with the way they pay their Planner, rising to 88% if you take into account those that are neither comfortable nor uncomfortable. Only 12% say they were uncomfortable with the way they pay their Financial Planner.

IFSA/TNS Investor Sentiment Research November 2006

**...and there is no clear preference for fee structure, choice in payment options is important.**

When asked if people had any preference for the way they pay their financial planner 18% said commission, 18% said a mix of fee and commission, 26% said fee for service, 18% said event based advice and 20% had no preference.

Nielsen Research Commissioned by ING Australia, 2007

**7. People do understand how they are paying for their advice...**

When looking at how they pay their fees, over a half (56%) of investors say they pay either by commission or a fee from their investment. One third (33%) say they pay their adviser direct, either a standard fee or a fee they've negotiated.

IFSA/TNS Investor Sentiment Research November 2006

**...and satisfaction levels with their adviser are high by all methods of payment.**

Levels of comfort with that method of payment are also high across the board but those that negotiate a fee which is paid from their investment are the most comfortable with the way they pay fees for advice.

Satisfaction and comfort with the fees by the method investors say they pay their adviser

Method of paying adviser	How adviser is paid	% Satisfied with their adviser	% Comfortable with the way they pay fees and charges (includes neither comfortable nor uncomfortable)
I don't pay a separate fee, I understand that commission is paid to my adviser	44%	91%	69% (90%)
I negotiate a fee which is paid from my investment	12%	94%	84% (96%)
I pay a standard fee directly to my adviser	22%	98%	71% (88%)
I negotiate a fee which I pay directly to my adviser	11%	96%	66% (90%)
Other	5%	79%	67% (87%)
Don't know	6%	100%	55% (91%)

IFSA/TNS Investor Sentiment Research November 2006

## LIMITED ADVICE – CASE STUDY

### Jan's story

I was 49, my children had grown up and while I had been back at work for nearly 10 years, I didn't have much to show for it. I always accepted that I would probably work until pension age, but as I approached 50, I decided I wanted more control over when I finished work, and how I lived my life after that.

When a friend suggested I see a financial adviser I nearly laughed. Apart from my home, I only had a modest amount in super and an even smaller amount in savings. Even if I could see an adviser, I really couldn't imagine what they could do for me with so few assets and a salary that was reasonable, but certainly not exorbitant.

As it turns out, it was the best thing I have ever done. I called my super fund to see if they could recommend an adviser and they put me through to their affiliated company. Because I was certain I only wanted advice on my super, they told me I could speak to an adviser over the phone – and I could do that either from work, or home. It took just 30 minutes on the phone for the adviser to help me increase my savings without reducing my take home pay as well as allow me to receive additional superannuation contributions from the government.

It was so much easier than I expected. I haven't had to make significant changes to the way I manage my money and yet I am now confident that I will have enough money to live comfortably retirement.

For me, the benefits of advice have definitely outweighed the cost. Now I know how an adviser can help me, I'll be speaking to one again soon about taking control of other areas of my finances.

### The Facts

*Client:* Jan (aged 49)

*Reason for seeking advice:* Jan wanted to maximise her super (which she only commenced when she returned to the workforce after raising children) and improve her non-super savings (which she dips into regularly). She ultimately wanted to avoid working to pension age but couldn't afford to reduce her income further.

*Relevant Stats before advice:*

Annual Gross Salary: \$42,000 p.a.  
Current Super: \$32,000 (approx)  
Super contributions: SGC + \$50 per fortnight  
Salary sacrifice  
Super investment: Balanced Fund  
Current Savings balance: \$1,000  
Regular savings: \$200 per fortnight to a savings account  
Mortgage: Nil

### The Plan

Jan's adviser recommended just 5 simple steps to significantly increase contributions to her super fund and improve the effectiveness of her savings.

- Step 1: Increased her own salary sacrifice contributions to super to 5% of her salary in order to maximise her employer contribution<sup>1</sup>
- Step 2: Made an additional salary sacrifice contribution of \$70 per fortnight
- Step 3: Made after tax contributions of \$25 per fortnight, in order to qualify for the maximum Super Co-contribution for her level of assessable income.
- Step 4: Directed her current savings balance and additional regular savings (now approximately \$100 per fortnight) to a balanced managed fund with no entry or exit fees.
- Step 5: Kept her superannuation invested in the Balanced Option.

### The Result

**Superannuation:** As a result of seeking advice, Jan's super fund received total contributions this year of \$9,510. This is \$5,190 more than Jan would have contributed and represents increased contributions from Jan, her employer and the Commonwealth Government.

**Savings:** By investing in a managed fund Jan improved her long term return and found that she was less likely to dip into her savings. She also discovered the potential for tax benefits from her managed fund that she wouldn't have got from a regular savings account.

**Take home pay:** Jan's take home pay remained the same but her total contributions to super and savings increased significantly.

<sup>1</sup> Jan's employer will make a contribution of 12.75% (instead of 9%) if Jan contributes a 5% contribution from her pay each fortnight

## ALLOCATED PENSION – CASE STUDY

### Annie & Ted's story

When Annie & I married just over 12 months ago I took long service leave so we could take an extended honeymoon. We had both planned to return to work after our break, but changed our mind and decided to retire.

We had a credible amount sitting in our individual super funds and knew that we wanted to use them in whole or part to fund our income in retirement. We had heard about allocated pensions but didn't know when we could buy the pensions and we didn't know whether to use all or just some of the super. I'd done my research and had worked out that we would receive too much income from the pensions if we used our entire super. However, if we only used some of our super we would have to pay up to 15% per annum of the earnings on the money left in super.

A compounding issue for us was that I had nearly 3 times the amount in super that Annie did. When we got married we agreed that our families would inherit our assets in about the same proportions as they were valued when we entered our relationship. That was approximately 25:75, Annie to me. Any strategy we adopted had to help us preserve that asset split.

I decided I should go and see an adviser because I knew the adviser would provide objective advice in the context of our family situation. I could probably have worked out a plan that would deliver us a decent financial result, but I didn't want Annie's family to feel that our financial plan was biased in any way. (I should also say that I was a little concerned that if I purchased the pensions on my own I might miss something important – after all, allocated pensions can be complex.)

By seeing an adviser we have achieved the financial result we wanted and most importantly have a plan that has been put together by an objective third party. The adviser did introduce a few ideas to our strategy that I hadn't considered and was able to show how the strategy we chose should leave us financially better off over the long term than other alternatives. All up I would say that seeing a planner was a very worthwhile exercise.

### The Facts

*Clients:* Annie (aged 55 ) & Ted (aged 65)

*Reason for seeking advice:* It's Annie & Ted's second marriage. They have decided to permanently retire and are contemplating buying allocated pensions. They are now concerned about how to draw down on their pension & other assets and still leave an equitable result for their children from their first marriages.

*Relevant Stats before advice:*

Required joint income: \$50,000 per annum (after tax)

Annie's Super: \$491,810

Ted's Super: \$1,588,268

Savings: Enough cash to cover living expenses for a few months.

### The Plan

Annie & Ted's adviser worked through a couple of strategies before they decided on these steps:

- Step 1: Use the total of each of their superannuation funds to purchase allocated pensions.
- Step 2: Draw the minimum amount of income from each pension.
- Step 3: Direct the excess income from their Allocated Pensions to individually owned managed funds through a regular savings plan. 25% of their total excess income would be invested in Annie's name and 75% in Ted's name.

### The Result

**Allocated Pension Income (yr 1):** Annie \$19,680 + Ted \$79,420 = Total \$99,100

As Annie & Ted bought their allocated pensions after 1 July 2007 their pension income is tax free.

**Savings:** Excess income of \$44,100<sup>2</sup> is invested as \$11,025 in Annie's name and \$33,075 in Ted's name.

Annie & Ted's bank accounts are automatically debited each month to make individual contributions to managed funds (\$900 for Annie & \$2,700 for Ted). The adviser has also shown that over the long term, Annie & Ted should have a higher asset value by investing their excess income in a managed fund, compared to if they had have left some money in super.

<sup>2</sup> \$99,100 allocated pension income, less required income of \$50,000, less a buffer of \$5,000

## LIFE INSURANCE - CASE STUDY

### Donna's story

I'd been working as a teacher for most of my career and with only a few years left in the workforce, I decided to take on the challenge of an overseas teaching position. After a brief search I was offered a 3 year contract at an English school in Asia with an option to extend.

The overseas contract provided a significant increase in income for me and caused me to think about how I was tracking for retirement. Before signing the contract I decided to seek financial planning advice, which confirmed that I needed to work for at least another 5 years in order to maintain my current lifestyle in retirement. With this in mind I didn't want to take the risk of resigning from the public sector. I therefore accepted the position in Asia on the basis that I would take long service leave at half-pay for 12 months and then leave without pay for 2 years. If I still liked living and teaching there after that, I would resign from my position in Australia and stay working in Asia for another few years.

I was working through my list of "things to do" when I thought about the planner's recommendation that I obtain income protection. I had good cover against loss of income due to accident or illness through my Australian super fund, but this would cease when I took leave without pay. I quickly learnt that insurers are reluctant to cover clients with long term plans to work overseas. I also found that covering me for 75% of my contract was difficult and expensive – most quotes for a good quality policy were in the vicinity of \$8,000 per annum. It seemed like a lot of money, so I thought I should look further into it.

I'm extremely glad I did. My financial planner was able to negotiate a policy which covered me in Asia for 75% of my contracted earnings and advised me that by structuring the policy in a different way I could save enough money to also enable me to afford the Critical Illness/Trauma insurance I needed, but could not previously afford. I got the cover I needed for less than half the cost I had been quoted before and I discovered that I could come back to see the adviser at any time during my time abroad to discuss retirement or any other financial issues. The process was discrete and the advice cost me a fraction of what I saved on the insurance.

### The Facts

*Client:* Donna (aged 55)

*Reason for seeking advice:*

Donna is taking up an overseas teaching contract. She expects to work for another 5 years and is currently covered through her superannuation fund for loss of income through accident or illness. She wants to know if she can get affordable income protection while she is working overseas.

*Relevant Stats before advice:*

Required income cover:	\$7,500 month
Existing cover in place for:	12 months
Client has quote (from insurance company) for:	
Premium	\$8,466 /annum
Payout	\$7,500 /month
Wait period	30 days

### The Plan

Donna's adviser has recommended 3 simple steps to reduce the cost but achieve more comprehensive cover:

- Step 1: Take a policy with a 2 year waiting period (this has a high impact on cost).
- Step 2: Obtain a policy where the waiting period can be reduced to 90 days, without any health assessment, if cover through her super fund is lost (this ensures continuity of cover)
- Step 3: Charge a fee for service instead of commission and use some of the premium savings to take out critical illness cover.

### The Result

**Annual premium:** \$3,531 for income protection (compared to the \$8,466 original quote) plus an additional \$687 per annum to provide for Critical Illness cover  
Total annual premium \$4,218 (Total saving \$3782 in year one)

**Value of advice:** In this instance, the financial planner added value to Donna in three key ways:

- firstly, by negotiating with Insurers to enable the policy to cover her for 75% of her contract while working overseas,
- secondly, by selecting a policy which allowed the waiting period to be structured in keeping with her needs and
- lastly, by opting to charge Donna a fee instead of receiving commission from the policy (this last measure reduced the premium by around 25%).

**The above factors combined to give Donna comprehensive coverage which would otherwise have been unaffordable.**