News

CONSUMERS FAIL TO RECOGNISE COST OF ADVICE

By Mike Taylor on 26 October 2010 19 comments 13 retweet

New research has confirmed most Australian consumers are not prepared to pay big dollars for financial advice, with most believing it should cost just $300 upfront.

That is the bottom line of new research released by Investment Trends this week, which found that the average Australian adult believed the $300 figure was appropriate.

The research was contained in the Investment Trends 2010 Planner Business Model report, which drew on a survey of investors conducted in December last year and a survey of financial planners completed this month.

According to Investment Trends analyst Recep Peker, the preliminary results revealed that, on average, investors believed financial advice should cost $300 for the first visit and $300 for subsequent visits.

“Yet the average financial planner estimates that the break-even cost of providing full advice was $2,700 and providing simple advice was $1,200,” he said.

The research found that, similarly, planners estimated that, on average, the cost of maintaining a client file, including periodic reviews, was $1,400 a year.

Commenting on the results, Peker said it had revealed a striking disconnect between the expectations of planners and their clients.

"It also suggests that many investors may be unaware of the true cost of advice under existing asset-based fee models," he said.

However, the research also revealed that while consumers might baulk at paying more than $300 for their first visit to a planner, they were typically willing to pay more to have their strategies reviewed.

"Generally, investors seem willing to pay more once they have had firsthand experience with financial planners," Peker said.

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COMMENTS

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This is all becoming a joke. Certain entities are creating and feeding off this craziness, e.g. Money Management, Business consultants, industry super funds, Professional Planner, and psychopaths like John. Wake up and smell the coffee everyone.....we probably could have and probably should charge $300 a pop for financial planning consultation if the funds management industry and bankers were not in control whereby they created massses of flawed investments and a sell at all costs strategy. Because of this dubious background to the industry we are now forced to create screeds of documents to justify every word spoken, as if we can't be trusted with verbal communication...and now people can't afford or justify the cost to see a planner for a simple discussion and normally simple solutions.

GB | 26 October 2010 at 17:25

John, I am a regular reader of money management although I don't usually make comments. However I cannot help myself after reading your many comments on this site. I have noticed that whenever a contentious article is published about financial planners you always make belittling and insulting comments about financial planners. You go about this in a manner of someone that has a psychosomatic disorder. I think you need professional help to manage your obsessive jealousy and hatred. John, I have noticed in various comments you have made in other articles that you see yourself as the zenith of the financial advice industry. I have seen many people enter the financial services industry with a big ego thinking that they know it all only to be spat out with a small ego and a big financial loss for their clients. I can tell you I would not employ you as a financial adviser in my business you are to blinkered. To be a successful adviser over the long term you need to be self critical about your decisions and have an understanding of radical fallibility, not critical of everyone else and always believing that you are correct.

Tony | 26 October 2010 at 17:20

Wow - John must be living in a bubble. If everyone thought like him then why do so many of us planners have so many happy & satisfied clients who see the value in our advice and are happy to pay for it! Sure I see the odd client who knows all the rules etc, but they dont want to be doing all their own paperwork, stock selection etc. They understand that by 'employing' me as their adviser they can spend all their time doing what they enjoy and they can pay me to do the things they dont enjoy. And John, planners may provide 'incidental' tax advice as long as a fee has been charged and it is as a result of a particular strategy or product (such as super &

RECENT COMMENTS

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Tony said:
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A little knowledge is a dangerous thing said:
John. Making a comment like 'I always beat the market' shows me that you have little understanding of markets, and a dangerous…

Frustrated user said:
Agreed I have seen Xplan in South Africa and it is horrendously time consuming. Productivity gains? Pity that no one will ever know the…

Jan Noack said:
IF you select a reversionary pension, are you still entitled to anti detriemnt benefits (consider the case of the wife being the…

Dan said:
Wow - John must be living in a bubble. If everyone thought like him then why do so many of us planners have so many happy & satisfied…

Paul said:
Michael you have summed up the problems with the advice process. A highly trained and experienced Financial Planner with knowledge of

personal concessional contributions, transition to retirement strategies etc). But yes, most of us cannot provide advice on establishing companies, family trusts and other Tax Specific advice.

Dan | 26 October 2010 at 15:35

Michael you have summed up the problems with the advice process. A highly trained and experienced Financial Planner with knowledge of the clients situation can often quickly identify a solution to a client's problem. Instead of providing a 10- 15 minute verbal explanation of the solution it has to come in a 20+ page SoA. Instead of saying: 'You can save $x by salary sacrificing $X', a Planner is required to write a book on the topic. As a result they are forced to charge the client for the time taken.

Paul | 26 October 2010 at 15:19

Most Planners do not provide an appropriate review service. All client portfolios should be reviewed on an ongoing basis to ensure they are in the most appropriate asset classes and are adding value. How many planners even think of doing this yet isnt this what the clients want? The whole emphasis of planning or Wealth management as it should be needs to change. Until this happens and we get away from petty and costly regulation the profession wont progress.

Chris | 26 October 2010 at 15:08

Hi John, thanks for proving my point. Your "advice" is not documented as required by the legislation, it requires me to visit a number of different people and in all honesty its pretty dubious advice. When I breach the concessional contribution caps that you didn't tell me about or I need to access my super (but find I cant) I'll come looking for you; I hope your PI insurance is up to date.

Max8699 | 26 October 2010 at 14:41

JC - u being smart. Obviously within caps. What concessionaly taxed envirnoment? What a Investment Bond or Directly into Managed Funds. Hello JC - both are sill taxed and guess what - you may see 50% lost in captal value. Can you be my planner

John | 26 October 2010 at 14:12

John, you're wrong on a number of fronts......again. Firstly, if you put into super "all you can afford" you could potential be paying tax at 93%, if you breach both caps. Secondly, if you save for your kids education in a bank account you would be paying your MTR (perhaps 46.5%) instead of the concessional taxed environment afforded through an education savings plan. Thirdly its spelt "children". Glad I'm not your friends and family listening and acting on the advice of a know it all who goes by the alias of "John".

JC | 26 October 2010 at 13:54

I think most advisers would actually really like to provide advice for $300 or less!! It's just a pity that such a rediculous amount of paperwork and infrustructure is required to provide even the most basic service not to mention the legally binding commitment to follow up. How can an adviser even suggest a client add more to their super and provide a projection if doing so requires them to have a fully paid paraplanner costing over $50k a year, $400 a month in software licences per computer (just to start) professional printing equiptment to prepare at a minimum a 20 page SOA and thousands of $ in ongoing training requirements. Not to mention dealergroup fees and the previously mentioned commitment to provide reviews. The government forces the hand of advisers by creating an incredibly complicated system for even the most basic advice which turns people away. Sure, some people need complex advice and would naturally pay more for it but some relief needs to be provided for strategic only advise or simple investments without product replacement.

Michael | 26 October 2010 at 13:48

Max8699 - What I read you shouldnt assume anything. Answers to your questions. Insurance - See any-one who sells the product, Its not that difficult to work out and u dont need to pay plan fees and alike as u get 100% commission upfront. Super - How much to put in - real tricky this one, put in as much as you can possibly afford to do so. Cildren Education fund - Open a savings account with a bank. Dont want to risk capital. All Done in 2 minutes. Fee $5,500.

John | 26 October 2010 at 12:57

John, do you really know what you are talking about? Don't you understand the DFP process? Clients complain also about the $360000 + a year doctors get paid but they forget about the training the doctor has to undertake just as they forget the training and knowledge professionals

the…

Chris said:
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in any field have to have. What we are seeing, unfortunately is part of the "lets get em" strategy of the media. A good Adviser is worth what is charged for advice, something the industry funds don't give. Superannuation is not the only advice that is given, a good planner can give advice depending on their qualifications - and that advice is well worth getting and well worth the money you pay. What is needed is education on exactly what a planner offers instead of media knocking and media surveys. These help sell but don't help our industry. Why have not the media publicised the fact that industry funds have spent $120million to destroy the advice that Planners give? Why have the media not made known to the public that the funds spent on advertisements pushing the free service (ha ha) of the industry funds has come from the clients' money? Lets have an honest approach from the media. Why doesn't money management open up on exactly what the industry funds offer instead of appearing to support them and the changes? Be positive Money Management and reveal some of the hidden costs of the industry funds - and they don't give advice!!

Fred Johansen | 26 October 2010 at 12:50

@ John: I love the people who jump on here and make grand statements with not even an attempt to justify them. "Planners add no value" Mate in many instances I would agree, the issue is not that they 'cant' but that many 'dont' be it through lack of skills or there choosen postion/employer. Either you're a client whom has been burnt or someone whom works in the industry, no doubt alongside those whom fit it the latter category above. So here is a thought John, invest the time and effort to either find yourself a good adviser or suck it up and find yourself a firm where the advise professionals do add value, its really that simple and yes they are far and few between but so is anything of quality in this world! That’s life champ.

Brent | 26 October 2010 at 12:42

John...not a fan of planners obviously, I can definitley say that planners add value. When a client is not getting any centrelink or in an investment that is inappropriate as far as tax structure (yes tax, for example retirees staying in an acummulation fund when they can roll into an income stream) is concerned, and the planner recommends a strategy that can either save a client thousands, or allow them to gain Centrelink benefits worth thousands a year, then I would say they definitely add value. You seem to be misinformed, or maybe just bitter.

Mike | 26 October 2010 at 12:32

John, the fact that you are reading money management would suggest that you are the industry. If so, you may not need a planner because you know enought to look after yourself. Perhaps you'd like to consider the rest of the community who arent so well informed? Rather than just being the 'anti planner" advocate could you explain to me where I should go for advice on how much insurance I need, or how much I should be adding to super, or how best to invest for my childrens future education needs?? Any suggestions?

Max8699 | 26 October 2010 at 12:16

There is a massive contradiction in this article, is states "investors believed financial advice should cost $300 for the first visit and $300 for subsequent visits" but also "willing to pay more to have their strategies reviewed". Why would you deal with an adviser (which I am one) if you weren't reviewing strategies? This is what we do - whether it is super, investing or whatever, we review straegies, both of clients doing and our own strategies. So what was the $300 for? A chat and a coffee? Full financial plan? Hug & kiss? Could this be another survey designed to attack our own industry rather than actually building credibility?

Tim | 26 October 2010 at 11:50

No real suprise. Industry funds have trained the Australian public to believe that financial advice has no real value. This perception will be re-inforced when their first taste of advice is over the phone via cheap, conflicted 'intra-fund' advice. But there is a silver lining.... with fewer people obtaining proper advice the Government will collect more tax and pay out less Centrelink benefits!

Ben | 26 October 2010 at 11:33

Jenn, Your comments about advice in relation to reducing their tax - if u are a planner u can-not give tax advice, so the client doesnt need u for this. In terms of Long - Term wealth, unfortunately people have seen long term wealth destruction. The public would see that $300 up front is too much. Planners add no value

John | 26 October 2010 at 11:11

I agree that clients seem to baulk at paying for financial advice. Investors are willing to pay hefty

amounts for tradesman, accountants, solicitors and the like but when it comes to advice which could reduce their tax and increase their long term wealth, there is an issue. Financial Planners are professionals who now require a high level of ongoing training - surely they deserve to be paid a respectable amount. If all clients were charged fees of $300, with the work involved in strategies, advice documents and reviewing, advisers would be lucky to be paid over the Australian minimum wage. Investors need to consider the value and return they may receive a long term relationship with a financial adviser.

jenn | 26 October 2010 at 10:44

Wow, consumers dont understand the underlying costs of providing the service or product they want..... hardly news now is it?? The same could be said if you asked me what I would like to pay for a car service, doctor or lawyer visit!! 99% of consumers dont understand what proudt or service they are getting (its why the industry is a flawed as it is) So they are hardly in a position to comment on the "appropriate" costs to deliver it!

Brent | 26 October 2010 at 10:40

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