Hard to put a fair value on good advice

Annette Sampson
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HOW much should you pay for financial advice? That's the $64 million question raised by recent research that found a huge gap between what consumers think they should pay and what financial planners reckon they need to charge.

The research by Investment Trends found the average consumer thought about $300 was the appropriate price for both an initial financial plan and ongoing advice. But planners say that's way short of the average $2700 they need to break even for providing full financial advice and the $1200 needed for a simple plan.

This ''disconnect'', as Investment Trends dubs it, must be worrying news for the financial-planning industry, which is facing government regulation to reform the way it charges its customers. Under the Future of Financial Advice reforms set to apply from 2012, advisers will be banned from receiving commissions and other asset-based fees from financial-product providers. Instead, they will have to clearly spell out their charges to their customers, not just once but every year through an opt-in provision in the legislation.

The changes will only apply to new investments but who'd want to be an adviser explaining to a loyal, long-term client why new customers are getting an improved transparent deal but he or she is missing out? Whether they like it or not, planners are moving to a system where their income is going to come from fees for service and they're going to have to justify that those fees are worth it.

On the face of this survey, they're facing an uphill battle. Investment Trends found while consumers were prepared to pay more for some sorts of advice - most notably retirement planning - there was still a gulf between what consumers thought advice was worth and what planners are charging. Interestingly, consumers with an existing financial plan were prepared to pay more than first-timers, which suggests planners are adding value. But an Investment Trends analyst, Recep Peker, says many existing investors still seem to be unaware of just how much they're paying for advice under the current arrangements.

Part of the problem is that while planners are required to disclose their fees, their true impact is often buried in complex detail and fine print. Commissions and other asset-based fees are charged as a percentage of money invested and come out of your investment, which makes them less in-your-face than fees that require you to physically make the payment. And let's face it, 1 or 2 per cent sounds a whole lot cheaper than $5000 or $10,000 - which is what you might be paying if you have a sizeable investment.

But perhaps a more significant problem is that the advice offered is often overkill. While some planners manage to provide simple, affordable advice to ordinary consumers, there's a widely-held view that in their zeal to protect investors, the government and Australian Securities and Investments Commission have pushed up both the cost and the level that must be provided.

It's like selling a Rolls-Royce to someone who wants to nip down to the local shops. In giving advice, planners are required to take your full circumstances into account - which usually involves an in-depth meeting and the production of a Statement of Advice that ticks all the compliance boxes required by the regulator and the planner's lawyers. These statements are expensive, can weigh a tonne and, according to a speech made by a legal specialist and director of Gold Seal, Clare Wivell

Plater, at this week's Association of Financial Advisers conference, many of them contain irrelevant information that adds to their preparation costs and bewilders clients.

The enthusiastic take-up of the limited advice that can now be offered by super funds suggests there is a real market for a simpler form of financial advice that doesn't come with all the hoopla. Many investors, particularly those planning for retirement, can get enormous benefit from a full financial plan. But if you simply want help sorting out your super, starting a share portfolio or drawing up a plan to pay off your debts, you really don't want to be paying big bucks for the Rolls-Royce product.

The financial-planning industry has been pushing to have limited advice extended so it can be offered by financial planners as well as super funds - and so it should be. It's an obvious way to make advice affordable for a wider range of consumers. While super funds often provide limited advice as part of their member service, planners could mount a good case for selling such advice at a reasonable price. We'd still need protection to ensure the advice is in our best interests but if it is tied in with the Future of Financial Advice reforms, that shouldn't be too difficult.

The financial-planning industry has grown from a sales culture in which a planner's income was solely dependent on how much money the client had to invest. That thinking is still apparent in the push by many planners to simply replace commissions with asset-based fees of the same amount.

A full financial plan is worth much more than $300 but if consumers are undervaluing advice, the industry largely has itself to blame. It is time for planners to kick the sales culture and charge appropriate fees for the level and quality of service on offer.