Fee divide

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Investors and planners are out of step when it comes to agreeing on the price of financial advice. New research shows that they put wildly different estimates on the value of financial advice, suggesting the industry faces an uphill task persuading investors to pay for advice once a proposed ban on commissions comes into force from mid-2012.

Adding up: Financial advisers are busy calculating their worth.

A survey by Investment Trends reveals investors are prepared to pay less than $400 for a comprehensive financial plan. But the "break-even" cost of providing even a simple plan is $1200, planners told the research firm, rising to $2700 for clients with a wide range of investable assets.

Further, while planners put the cost of regularly reviewing an initial financial plan to ensure it remains relevant against a background of changing market conditions, at about $1400 a year, investors want to pay under $300 for each follow-up consultation.

"At a time when planners are increasingly moving to a fee-for-service model," Investment Trends analyst Recep Parker says, "our survey shows a striking disconnect between 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."

Until recently, commissions obscured the discrepancy between investors' and planners' fee expectations.

Last year, mounting concern over high and hidden payments to advisers, especially after the Storm Financial, Opes Prime and other mis-selling scandals, led a parliamentary inquiry to recommend – and the government to propose in May – a ban on commissions from July 1, 2012. For its part, the industry says investors will have to be more realistic about the true cost of professional advice.

"The report indicates that with many financial planners moving to a fee-for-service model, it is a critical time for consumer education," Financial Planning Association chief executive Mark Rantall says.

"We need to educate consumers about the processes involved in developing a comprehensive and ongoing financial plan."

At the same time, many of these "processes" are the result of government regulations that generate mountains of paperwork for even simple advice, Rantall complains.

"Over-regulation of the financial planning profession will be a contributing factor to the increased cost of advice and will weigh heavily on the business practices of small financial planning businesses," he says.

"If financial planners are not able to increase efficiencies under current legislation then it may be difficult to provide advice at an acceptable price."

Financial advice should also receive the same tax treatment as accounting services, Rantall says. "The FPA has long argued that tax deductability of financial advice would encourage more Australians to seek advice and make it more affordable," he says.

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