

Money well spent

Key facts about financial advice

The role of a financial adviser

Good advice from an experienced, well-informed adviser can help people save money, protect against risk, manage debts, grow assets, reduce tax liabilities, plan for retirement, identify entitlements for government benefits, and plan what inheritance is to be left to the next generation.

A financial adviser's first responsibility is to the client, not to an employer, a product manufacturer, to him/herself or to anyone except the client. When providing personal financial advice an adviser must take into account the individual client's circumstances and goals. The advice may or may not involve the recommendation of a financial product. The role of a financial adviser is not to sell financial products.

The difference between general and personal financial advice

- General advice is advice on financial products that helps people make decisions about money but does not take personal circumstances into account.
- Personal advice considers a person's objectives, financial situation and needs. With this understanding, the financial adviser can recommend appropriate strategies and, when required, appropriate financial products to suit individual needs and goals.

Who can give advice?

To provide financial product advice, a financial planner must be licensed by the Australian Securities and Investments Commission (ASIC) or be authorised to represent a licence holder. The ASIC consumer website www.fido.asic.gov.au allows people to check who holds a licence or is an Authorised Representative.

ASIC sets a minimum education standard (Policy Statement 146). Advisers with this minimum qualification will often operate in a support or administrative role and be supervised by an experienced practitioner.

In Australia, around 5,500 advisers hold the CERTIFIED FINANCIAL PLANNER™ accreditation. CFP® is the highest professional designation in financial planning and it is recognised worldwide.

To be certified, financial planners must meet education and examination requirements, hold relevant and approved experience, and adhere to the FPA Code of Ethics. They are

required to renew their certification annually and undertake continuing professional development.

In Australia, only the Financial Planning Association is licensed to award CFP® certification.

Professional financial planners are covered by professional indemnity insurance and are often members of the Financial Planning Association of Australia, the peak professional association.

What advice will cost

Financial advice is a valuable professional service which carries a cost. The cost depends on the complexity of the client's financial situation and the level of service provided by the financial adviser. On average, a basic plan is \$1,000, a typical plan is \$1,600 and a complex one is \$3,600.*

The Financial Services Guide (provided to prospective clients) explains the services on offer and their costs.

The Statement of Advice (which is the recommended financial plan for the client) details all the specific fees and charges payable to the planner based on the advice given.

*Figures based on research among FPA members.

When advice is needed

Most people choose to see a financial adviser at significant turning points in their life. They may need a professional to help them consider their options and to understand financial products, tax laws or the benefit system. Once people find an adviser with whom they're comfortable, a long-term relationship often develops with regular meetings to review changing needs. People most often consult a financial planner when:

- Starting work or changing jobs and looking at superannuation options
- Getting married, or separating from a partner
- Starting a family, and saving for education costs
- Buying a house, or paying off the mortgage
- Looking to invest for capital growth
- Planning to retire
- Inheriting money, receiving redundancy payments or other lump sum payments.

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What a financial planner does

A financial planner sets out to understand each client's different needs and financial objectives and to recommend an appropriate financial strategy. There is an established six step financial planning process which all professional advisers follow with every new client:

1. Gather financial information about the client
2. Identify financial and lifestyle goals
3. Identify any financial issues
4. Prepare a financial plan
5. Implement the plan
6. Review and revise the plan at regular intervals, or when circumstances change.

How to tell if you're getting good advice

Good financial advice makes the most of the assets a person has, helps to build assets, provides financial security and brings peace of mind. Some signs of good advice, and some warning signs, are listed here.

Good advice:

- ☞ Takes account of personal needs and goals
- ☞ Puts the client's needs first
- ☞ Is provided in clear and understandable terms
- ☞ Is explained verbally and in writing (through a Statement of Advice)
- ☞ Includes strategies and solutions not otherwise known to the client
- ☞ Clearly identifies costs which are openly discussed and explained
- ☞ Explains conflicts of interest which may influence the adviser's recommendations

Warning Signs:

- ☞ The adviser is not employed by or does not represent a licensed advisory business
- ☞ The adviser does not identify the client's needs/goals
- ☞ The adviser does not adequately explain the complexities or is otherwise not understandable
- ☞ The adviser does not provide a Financial Services Guide at the first client meeting
- ☞ The adviser promotes a product without explaining the risks
- ☞ The costs of advice are hidden in the small print and not explained clearly
- ☞ An unexpected call is received from an unknown person selling advice or products

How advisers are paid

Financial advisers charge for their services in a number of ways. Clients should discuss and clearly agree costs with their financial adviser.

Some financial advisers receive payment directly from their employers, others from the providers of products in which the client invests. Payments received from the product provider are generally referred to as commissions. However, if a client pays for advice in this way, provided the amount can be varied or terminated as agreed between client and adviser, the FPA advocates the payment be described as an 'advice fee.'

Other financial advisers charge a fee directly to their clients for the service provided. The fee may be fixed dollar amount or based on an hourly rate. A combination of both methods is used by many financial advisers.

In addition to the initial advice fee, other costs may include:

- ☞ An implementation cost, based on a percentage of assets invested
- ☞ An ongoing advice fee (sometimes in the form of a commission paid by the product provider to the financial adviser).