

Financial planningAre you getting what you're paying for?

By Phillip Win (Director and Senior Financial Planner, Profile Financial Services)

The cost of financial planning has long been hotly contested. Many financial planning clients do not know what fees they are paying, or what services they should expect to receive in return. And recently fees have been the subject of much publicity – with industry super funds promoting their no-advice models, and several government enquiries delivering recommendations for change in this area. In this article I take a look at the vexed question of the cost – and value! - of good advice.

A recent example

Recently a dentist came with his wife to see us for an initial consultation. They had been clients of another financial planner, but were not happy with the service being provided and were seeking a second opinion. Fortunately, they were avid readers of my articles and knew how to contact the office for an obligation and cost free appointment! After confidently advising them that we were genuinely different and could add measureable value to their financial situation, I provided a fee proposal to undertake the agreed work and awaited their reply and guidance. Not long afterwards this couple contacted me and confided that they were struggling to reconcile the cost to engage my services.

Commodity versus specialty

Now, I am sure that any dentist can appreciate the hesitation of a patient to proceed with a procedure that they do not understand or when they have no concept of what benefit the work will bring to their health. A dentist's fee schedule will vary according to the level of experience and training required, and their reputation for each procedure. While some dental work could be considered "commoditised" such as clean and scale or fillings, other procedures are "specialised" – such as implants, orthodontics and so on. For these types of procedure, fees do vary (sometimes substantially) from dentist to dentist.

Similarly, there are areas of financial planning that could be considered a commodity. Two typical such areas are asset allocation (advising on the proportion of investments which should be held in equities, bonds, cash etc) and consolidated reporting (choosing a product known as a 'platform', 'wrap' or 'mastertrust' to hold, report on and transact multiple investments). These are areas that many financial planners have built their businesses on, as historically it has been difficult for the general public to "do it themselves" in these areas. However times have changed and what were once specialist areas are fast becoming commoditised. Not only do many planners now offer very similar services in these areas, but there are now models on the internet which can

assist with asset allocation and consolidated reporting for people who are interested in doing it themselves.

The value of specialist advice

To answer the cost query of the dentist I introduced above, I needed to explain where some of the key costs of doing business with a financial planner lay.

One example – the platform fee

These clients held investments via a platform – a product which provides transactions, online viewing and consolidated reporting. A platform makes life for the financial planner a lot easier as they only have to deal directly with one provider. This structure also helps clients who do not want the hassle of managing reams of paperwork and want to be able to see their investments online 24/7. However these facilities come at a cost! Platforms typically charge an administration fee ranging from 0.2% up to 1.5% of funds invested. For these particular clients, it was possible to restructure their current arrangements to eliminate the need for a platform. As a result the total cost of the strategy proposed by Profile would actually be less than they were previously paying, and that is **before** we even started to discuss relative investment performance.

Platforms are only one area of cost that a good financial plan should consider. You might also be paying product and administration fees, funds management fees, brokerage costs, real estate agent and / or mortgage broker commission, accounting fees, financial planning fees or commission, insurance premiums – the list goes on!

The myriad of fees that need to be understood when considering the true cost of your financial management confuse the end investor and can cloud what is a very important decision on who to partner with in the wealth accumulation journey. However it makes a big difference if you ask the right questions and educate yourself on exactly what you are paying and for what. A good financial planner will clearly explain what costs you are incurring in managing your finances, and the services you will receive in return for the advice element of your fees. As noted above, some services are simply commodities and the focus can be on minimizing the cost. However in specialist areas it makes sense to pay an appropriate fee for the level of education, training and experience required to deliver a high quality, reliable result to you. Make sure you partner with a financial planner who has a demonstrated track record of specialisation in the areas that are most important to you.

The bottom line

The challenge is to be confident that any fees you pay are returned to you in the form of measureable value. The term “measurable value” is very subjective and what is value to one person, is not to another. The only important consideration is what is important to **you**.

About Profile Financial Services

Profile is an independently-owned boutique financial planning firm with offices in the Sydney CBD and North Parramatta. We have operated for over 20 years, and specialise in serving the wealth creation and protection needs of professionals and small business owners. Many of our clients are dentists, and we run regular education seminars on financial planning specifically for dentists. To find out about upcoming seminars, or to book an obligation-free meeting with a Profile planner, call Aine Love on 02 9683 6422 or email aine@profileservices.com.au

Website : www.profileservices.com.au