Journey to financial freedom

Mapping the advice process

soundsteps
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Introduction

Too many people miss out on the benefits of professional financial advice.

This is commonly because they think their needs are too basic or they don't need advice.

Some are concerned they can't afford it and others just don't know who to trust.

Inertia could be another reason, with a recent Australian Securities and Investments Commission (**ASIC**) report finding that 41% of Australians intend to get financial advice in the future but haven't gotten around to it yet.[1]

This report also found that 37% of Australians believed they could manage their own financial affairs as well as a financial adviser.

The statistics are thought-provoking as they suggest that people may not fully understand or appreciate the value of professional financial advice.

This document aims to provide a clearer picture of what you can expect when seeking professional financial advice.

Did you know?

You may be surprised by all the knowledge, experience and work required to prepare a financial plan.

You may also be surprised to learn of some recent changes to the advice industry.

For example, the introduction of new Financial Adviser Standards and Ethics Authority (**FASEA**) requirements place greater scrutiny on the educational qualifications of advisers to ensure they meet a consistently high standard. These requirements include the completion of a Financial Adviser Exam for existing advisers and new entrants. The exam tests three domains of knowledge and skill:

- Financial advice regulatory and legal obligations
- Applied ethical and professional reasoning and communication
- Financial advice construction

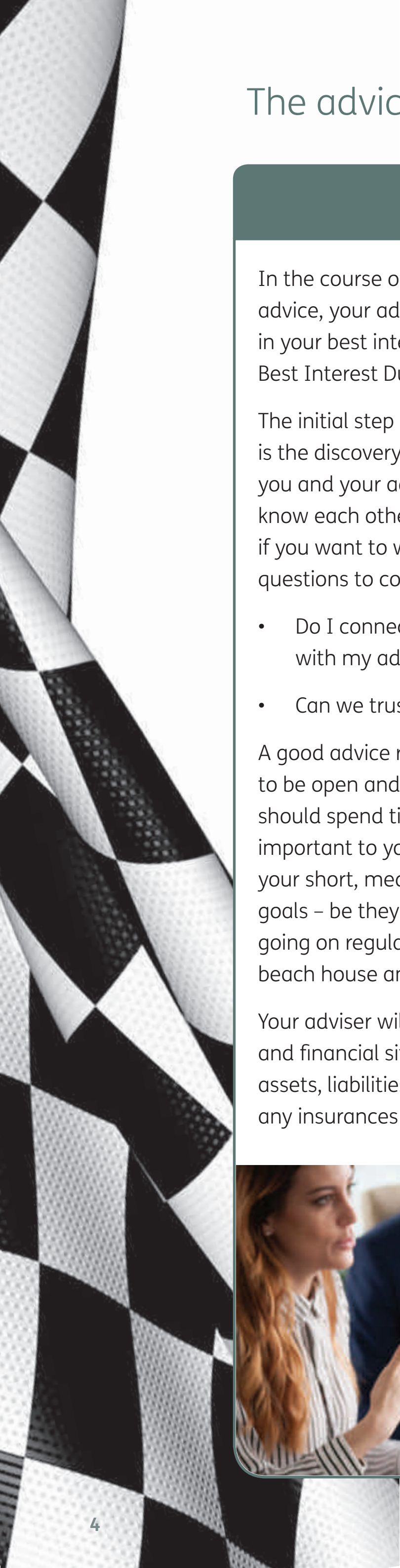
As of 1 January 2020, advisers must also comply with FASEA's Code of Ethics. This Code contains 12 Standards which relate to ethical behaviour, client care, quality process and professional commitment. Altogether, those 12 Standards aim to provide further reassurance that your financial adviser will act in your best interests.

While there is still much more work to be done to ensure that more Australians understand and access the benefits of financial advice, it is extremely pleasing that the ASIC report found that of the 27% of Australians who had received financial advice in the past, the overwhelming majority (82%) felt secure about their financial future.

According to the 2,500 adults that ASIC asked about reasons for using a financial adviser, the top five reasons were:

1. Financial advisers have expertise in financial matters that I do not have
2. Financial advisers can recommend products I would not normally find on my own
3. It is the job of a financial adviser to read the fine print and notify me of anything important
4. Financial advisers can introduce me to good ideas
5. Financial advisers can educate me about financial matters

With that, let's get started.



First things first

In the course of providing financial advice, your adviser is required to act in your best interests. It's called the Best Interest Duty, and it's the law.

The initial step in the advice process is the discovery stage, which involves you and your adviser getting to know each other and determining if you want to work together. Some questions to consider include:

- Do I connect and interact well with my adviser?
- Can we trust each other?

A good advice relationship needs to be open and honest. An adviser should spend time discussing what's important to you and prioritising your short, medium and long-term goals – be they starting a family, going on regular holidays or buying a beach house and retiring.

Your adviser will assess your personal and financial situation including your assets, liabilities, superannuation and any insurances you hold, depending on the scope of financial advice your adviser has been engaged for.

They will also talk to you about your attitude to risk, particularly in relation to investing. This may involve completing a risk profile survey which can help them understand your risk appetite.

Your comfort level in relation to taking on certain amounts of risk, considered in conjunction with your goals, will ultimately determine the types of assets you may wish to invest in.

Before any action is taken, your adviser should make sure you're comfortable with the approach suggested and outline any fees that may apply. Information such as the types of financial services offered and the fees charged are contained in a Financial Services Guide (**FSG**) which is provided by your adviser. The FSG sets out other important information to help you make an informed decision about whether to proceed to the next stage of engaging them as your financial adviser.

Terms of engagement

After your adviser has determined the scope of advice you need, they will detail their terms of engagement including the fee you will pay for the preparation of a financial plan.

During this stage, your adviser should:

- Reconfirm your goals and objectives;
- Complete a financial needs analysis with you;
- Obtain your written authority to proceed with the preparation of a financial plan;
- Gather copies of important documents such as superannuation statements and insurance policies; and
- Research any existing products you hold.

Financial plan preparation

Like a jigsaw puzzle, once your adviser has all the pieces they need, the next task is to put it all together.

You may be surprised at the extent of advice available from a financial adviser. Advisers can help with a range of topics including investments, retirement income planning, growing your superannuation, budgeting and cash flow management, aged care planning, risk protection, debt management, buying a business and estate planning.

They may also help with things like Centrelink and tax planning.

The rules around superannuation, investing, social security and tax are complex and constantly changing but an experienced adviser should know the entitlements and obligations that apply to you.

When preparing your plan, your adviser should consider the impact of their recommendations on your personal tax position to ensure the most tax-effective structures and solutions are implemented.

Constructing your financial plan

Your adviser should review your existing superannuation accounts, investments and insurance policies to determine if they still meet your needs.

If not, they should research other options.

There are thousands of investment and insurance products to choose from, each with their own unique features, benefits and costs.

If necessary, your adviser will recommend suitable products and strategies for you.

Having gathered and analysed all the necessary information, your adviser will cohesively put together their findings and recommendations in a document known as a Statement of Advice (**SoA**). Essentially this is your personalised strategic financial plan.

The purpose of a SoA is to maximise the probability of achieving your goals. Advisers work in different ways, but they are all required to provide clients with a SoA.

Presenting your personalised plan

Your adviser should arrange a meeting to present you with your SoA. This document contains several sections and would usually include how the advice provided should place you in a better financial position.

During this meeting your adviser will detail their recommendations and the likely benefits of taking their advice in the context of your personal goals.

You may be taken through a number of different strategies with the pros and cons of each explained so you can weigh up the trade-offs and make an informed decision on the right approach for you.

Most advisers use sophisticated modelling software to illustrate the outcome of implementing a specific strategy.

These tools – which have built-in assumptions around life expectancy rates, inflation and investment returns based on historical data – can demonstrate the impact of hypothetical scenarios on your financial position and lifestyle such as deciding to retire earlier than planned or moving to part-time work.

As part of this conversation, your adviser may also recommend a range of investment and insurance products suited to your needs and objectives.

Insurance advice

If required, your adviser will recommend the optimal amount of life, income protection, trauma and total and permanent disability **(TPD)** insurance you require to maintain your lifestyle and protect your family against an unexpected accident, illness, injury or premature death.

They may also recommend appropriate insurance products.

The structure and estimated cost of your insurances – based on standard rates - will be explained. The differences between stepped and level premiums, and how initial and ongoing premiums will be paid, should also be outlined.

If there is a gap between the optimal cover you require and the amount of insurance you can afford, your adviser will adjust their recommendations to accommodate your budget and clearly explain the potential impact of any changes.

Superannuation and investment advice

As part of a robust investment strategy, your adviser may recommend that you consolidate and simplify your investments.

Taking into consideration your age, goals and ability to tolerate risk and volatility, they may recommend investing in a diversified portfolio of assets designed to produce realistic returns.

Again, it's likely that software will be used to help illustrate how your strategy will unfold in practice.

Financial planning technology can project the impact of many scenarios such as:

- The probability and timing of achieving your goals;
- Making behavioural changes such as pulling back on lifestyle expenses or contributing extra to superannuation;
- Different decisions such as taking out a $1 million mortgage compared to a $500,000 mortgage, or retiring at age 60 versus age 65; and
- Various macro-economic scenarios beyond your control such as a global recession, interest rate cuts or increases.

If you have any questions or concerns about the strategy presented to you, this is the time to raise them.

It is important that you feel comfortable with your strategy before proceeding with its implementation.

Ultimately, it's your decision whether or not to move to the next stage. You should only proceed if you feel confident about, and understand, the advice you have been given. The implementation stage can only begin when your informed consent, or signature, is obtained.

Advice implementation

Once you have formally accepted your Statement of Advice and signed an Authority to Proceed, your adviser will put your plan into action.

Life insurance

If you are applying for life insurance, you'll need to complete an application form/s. This is commonly done with your adviser.

As part of the application process, you will be required to disclose a range of information including your medical history and any pre-existing conditions.

Applications can be either lodged electronically or submitted by your adviser on your behalf.

Depending on your personal circumstances and medical history, an insurer may request additional information or ask you to undertake a medical check-up.

For certain policy types, such as income protection, business expense or key person insurance, you may be required to provide detailed financial information.

After an insurer has assessed your application, they will inform you and your adviser if your policy has been accepted on the terms and premium you have applied for. Depending on your health and medical history, policy loadings may be applied which will increase the cost of the insurance.

Similarly, exclusions may apply for particular conditions – your adviser should also explain these to you.

If you're not happy with the policy terms or believe that your circumstances have not been understood fully, your adviser can speak to the insurer on your behalf to ensure they fully understand your situation.

If you're still not completely satisfied or your application has been rejected, your adviser should approach alternative insurers to help find another suitable option.

Superannuation and investment administration

You may be required to complete some paperwork to consolidate and rollover your superannuation or change your current investment options.

If you're switching to a new fund or establishing a self-managed superannuation fund, you will need to notify your employer and provide details of your new fund. You will also need to let them know if you plan to commence a salary sacrifice arrangement.

Depending on your situation, you may also need to notify Centrelink of changes or amend loan repayments.

In many cases, you will need to provide ID to meet Anti-Money Laundering requirements.

Where possible, your adviser can liaise with super funds, fund managers and other professionals on your behalf, and if they can't help you in a specific area, they can refer you to other professionals, for example, a solicitor to obtain a will.

Ongoing advice

Putting your plan into place is only the first step.

Seeking advice should not be a one-off, set and forget exercise.

That's because life isn't static. Your circumstances and goals will change over time.

You may get married, start a family, buy a new home, start your own business or receive an inheritance.

What constitutes appropriate advice for a young, single person renting a studio will be completely inappropriate for that same person 3 to 5 years down the track when they're married with a mortgage and young family.

It is natural for your goals and priorities to change over time so it's important to seek professional advice at every stage in life to ensure you fully understand your financial position, address key risks and continue to make smart decisions.

An adviser can help you stay on track towards your goals and objectives.

They can proactively inform you of any superannuation, tax and Centrelink changes which may benefit you.

Your adviser may also offer services such as educational seminars, client functions and online budgeting tools.

Based on your needs, an ongoing advice relationship – where you can talk to your adviser and have your investments and insurances reviewed on a regular basis – is important to ensure that your strategy and financial plan continues to be relevant for you.

If your circumstances have changed, your financial plan may need to be adjusted.

Annual review

Your adviser should meet with you on a regular basis and conduct an annual review of your circumstances and needs.

Any adjustments will be formally presented in a new SoA or an advice document called a Record of Advice that clearly articulates your updated situation, recommended changes and why this advice has been recommended. Any changes to ongoing premiums and fees will be clearly disclosed.

If you opt-in for ongoing advice, your adviser will provide you with an annual statement called a fee disclosure statement. This will detail the fees you paid and the services you are entitled to receive. Every second year you will be asked to confirm in writing that you wish to continue with your ongoing service package.

Making a life insurance claim

The value and importance of life insurance is clear. Consider the following statistics:

- Six in 10 Australians have insufficient insurance cover to provide protection for their family for longer than one year.
- More than 25% of one child families' insurance needs are met by default Super policies (which don't include trauma cover).
- One in four of today's 20-year olds can expect to be out of work because of a disabling condition before they reach normal retirement age.[2]

If you or a member of your family needs to make a life insurance claim down the track, your adviser will be available to help you lodge and manage your claim.

A major review by the corporate regulator found that life insurance claims, including TPD, trauma and income protection, are paid more often when an adviser is involved in the process.

Times of uncertainty

For over 25 years, Australians have enjoyed unprecedented economic growth and healthy domestic share market returns.

The difficulty comes when markets fall, or become extremely volatile, and consumer confidence is low.

It's common for investors to abandon well-thought out and proven investment strategies in uncertain, volatile times.

Just as dangerously, investors can pile into investment fads and pay too much for assets.

The 2008 Global Financial Crisis (**GFC**) is a case in point. More than a decade on, the ramifications of the GFC continue to shape the global economy and investor behaviour. While many investors got spooked and bailed out during the crisis, those who rode out the volatility and stayed invested in the market generally found their portfolios had increased in value.

For instance, Australian and international shares (unhedged) returned 7.86% and 12.42% per annum respectively for the ten years ending 31 December 2019.[3]

This pushed the median balanced superannuation fund return to 7.7% per annum for the last decade and 6.4% over the last 20 years, according to SuperRatings.

Through all of life's ups and downs, and different market cycles, a professional adviser can act as a sounding board and coach to keep you on track towards your goals.

Overall the right financial strategy and products for you will depend on your unique circumstances, financial needs and goals.

For more information, speak to your financial adviser.

1 ASIC report 627, Financial advice: What consumers really think August 2019
2 SwissRe client presentation, Income Protection in Focus October 2019
3 https://www.afr.com/wealth/whats-changed-in-investing-10-years-after-the-gfc-20181023-h16zxd

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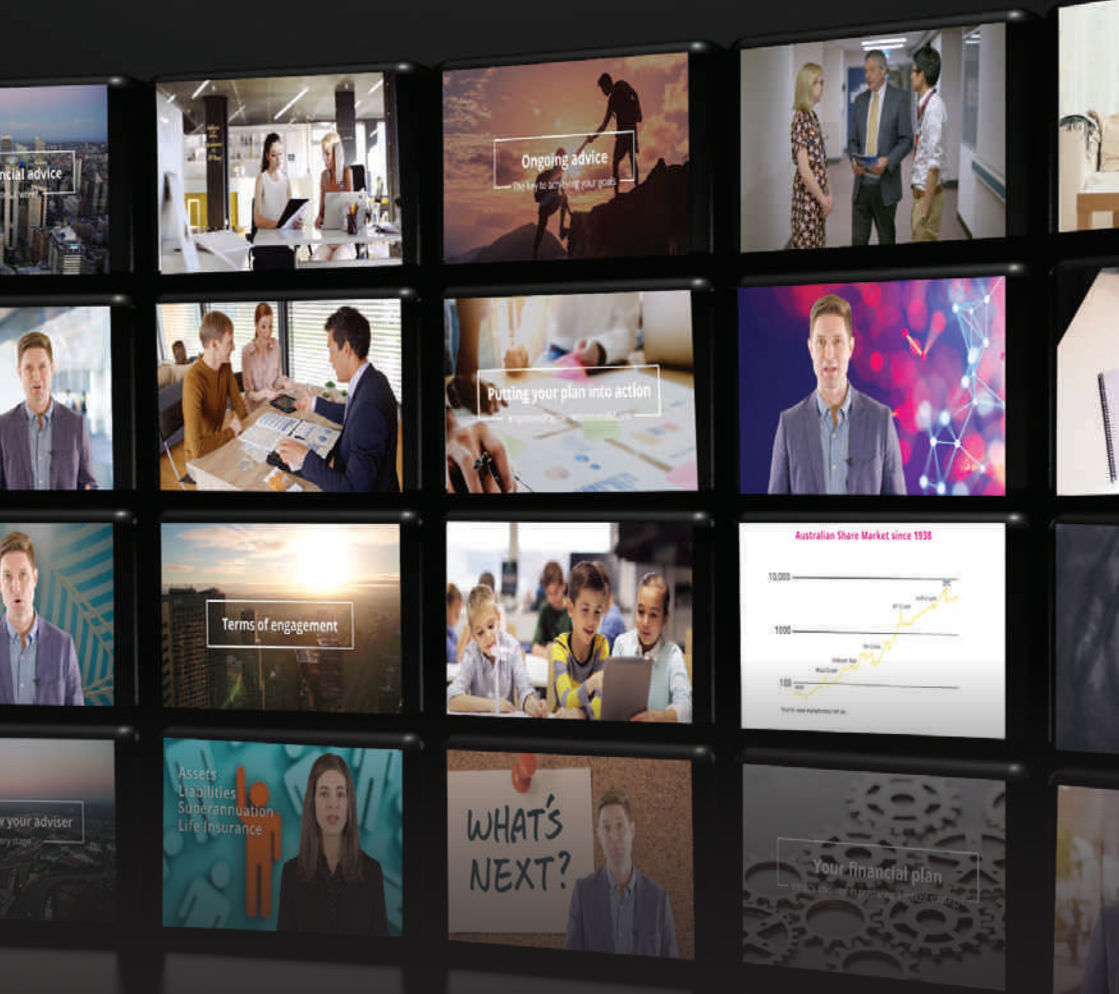

A three-part video series on this topic is also available.
Titled ***Advice under the bonnet***, the series breaks the advice process into three parts:

- Getting to know your adviser
- Preparing and presenting a financial plan
- Implementing a financial plan and the benefits of ongoing advice

Contact our office today 02 4861 7888 or prosper@soundsteps.com.au to access these free

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