



How Advisers Charge For Their Advice

This guide has been written for clients and prospective clients of Financial Advisers & Financial Planners in Australia. This guide provides insights into the many and varied ways that these professions charge fees to their clients.

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BACKGROUND ABOUT THE AUTHOR

John Forwood has been in the financial services industry since March 1999, when he started working as a stockbroker for Macquarie Financial Services. Since that time, he has worked for Challenger International, Travelex Foreign Exchange, BT Financial Group, Westpac Bank and in 2015 he started his own Financial Advice firm, Forwood Planning.



For over 10 years, John worked with BT Financial Group where his key role was to meet with Financial Planners about their business, and ultimately get those financial planners to use BT Financial Group's products with their clients.

This process required a high level of understanding of each Financial Planners business, including the method for how and what fee they charged their clients. Over a 10-year period, John made more than 5000 office visits with more than 500 Queensland advisers, giving him a broad insight into the advice industry.

Note: Throughout this book the term Financial Planner, and Financial Adviser are used interchangeably. The reference to one or the other refers to an Authorised Representative of an Australian Financial Services Licensee(AFSL).

If you are researching a Financial Adviser the first thing they must be, by law is an Authorised Representative of an AFSL. To find out if your adviser is an Authorised Representative, please check the Financial Advisers Register at www.moneysmart.gov.au.

THE ADVICE PROCESS

To understand how and what a Financial Adviser can charge it is important to understand some of the steps of the process. Please note that the detail of what occurs in each step is not outlined in this document.

The major process steps in providing advice are:

1. Initial meeting/s
2. Preparation of Statement of Advice (the legal document)
3. Implementation of advice – moving your money into the products they have recommended
4. Ongoing advice – keeping you abreast of legislative and situational changes

INITIAL MEETING/S

The initial meetings are used for both client and adviser to get to know each other, and determine if they can work together. It is also the phase of the process where the adviser finds out all about the client. Their current situation as well as their goals, dreams, hobbies, businesses and family.

CHARGING DURING THE INITIAL MEETING PHASE:

- ☐ It is rare that advisers in Australia charge for the very first meeting. Occasionally they do, and this would be disclosed to you prior to the meeting.
- ☐ Many advisers will ask a client to sign a document agreeing to the cost of a Statement of Advice (SoA) prior to proceeding with its preparation.



PREPARATION OF A STATEMENT OF ADVICE

The Statement of Advice is a client's formal written advice. It will outline a range of points including advantages and disadvantages of the recommended course of action. The course of action can include to do nothing if this is what the adviser feels is most appropriate.

The Statement of Advice outlines the strategy to achieve the client's goals. It is often said that this document contains the adviser's intellectual property. My thoughts are that the benefit of a Financial Adviser is more related to their ability to coach and mentor their clients through all stages of life, and stop them making avoidable mistakes.

- ☐ The fee charged for an Statement of Advice is usually a flat dollar fee, and is disclosed in one of the initial meetings.
- ☐ Statements of Advice are required (by law) whenever there is a significant change to a client's personal situation, legislation, or if advice is needed in an area that a client has not previously been given advice.
- ☐ Generally, if an adviser charges for their Statement of Advice, they will charge for each Statement of Advice prepared.



MOST FINANCIAL ADVISERS IN AUSTRALIA CHARGE FOR A STATEMENT OF ADVICE.

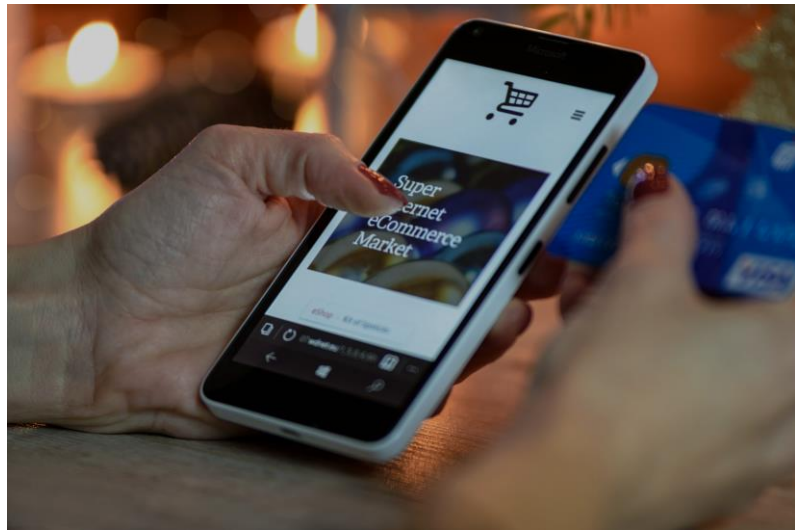
The reasons for charging for the Statement of Advice are wide and varied. In my personal experience the most common are:

- ☐ It contains the adviser's intellectual property and therefore the value to their client.
- ☐ Advisers often outsource the preparation (not the strategy) of the document, and this is a cost to their business.
- ☐ Time and Effort. An Adviser has dedicated several hours of work to their client by this time. As a professional Service provider, a Financial Planner is entitled to charge for this time.

IMPLEMENTATION OF ADVICE

Implementation of the Advice provided in a Statement of Advice can be very simple or very complex based on the strategy recommended.

Implementation is rarely completed by the Adviser, and similarly to other professions, is carried out by someone else in the advisers office.



As technology improves, and financial product providers embrace technology, the process of implementing advice is becoming easier. However, the time, and therefore appropriate cost of implementing advice depends on the service the advice firm provides, and the complexity of the advice provided to the client.

Implementation of Advice is where it is most difficult to determine the value that you receive for the fee that you pay. It is also where Financial Advisers who are less confident in their value offset fee's that should have been charged somewhere else in the process.

A key difference in the fees during implementation is that they are often charged as a percentage of the funds that are being implemented.

CHARGING IN THE IMPLEMENTATION OF ADVICE PHASE:

- ☐ If implementation includes investments (including investments through Superannuation), it is likely that you will be charged a percentage of the money that you are investing – usually between 0.55% and 1.10%
- ☐ If implementation includes insurance it is probable that the adviser will receive a commission based on your first year's total premium. The amount received by the adviser can range between 25% and 130% of your first year's premium.
- ☐ If implementation includes other strategies such as establishing a Self-Managed Superannuation Fund, Business Planning, Estate Planning or something else, it is most likely that a client would be charged a quoted flat dollar fee for implementation.

ONGOING ADVICE

Ongoing advice is vitally important to most if not all clients. Ongoing advice is a service that Financial Advisers offer. What is offered as part of this service differs from adviser to adviser.

Most service offers include a regular newsletter, and at least one additional meeting each year. If you require an additional Statement of Advice it is often an additional cost.

If your situation has significantly changed, legislation has significantly changed, or you require advice on something you have not previously been given advice on, you will require an additional Statement of Advice.

IMPORTANT POINTS TO CONSIDER WITH ONGOING ADVICE AGREEMENTS

- ☐ What does your ongoing advice arrangement include? Is it of value to you?
- ☐ Charged either as a % or as a flat dollar per annum or a combination. Work out how much this will mean to you, in dollars, each year. Is it of value to you?
- ☐ If you require an additional Statement of Advice, is this included, and if not what will the cost of this document be?
- ☐ A percentage based fee is often positioned as your adviser having “skin in the game” – is 1% enough to make a difference?
- ☐ If you have more money to invest, is the advice given to you really worth more? If you inherited \$200,000 tomorrow, is the advice worth an additional \$2,000 each year?
- ☐ Does the need to charge a fee as a percentage of your investment affect what product your adviser recommends?



OTHER FEES AN ADVISER MAY CHARGE

Additional Ongoing Fees:

Personal Insurance

If your adviser has elected to take a commission on your personal insurances, they are eligible to receive between 10% and 30% of your annual premium as a commission. Does this commission form part of your Ongoing Advice Fee?

Lending

If your adviser is licenced to offer you lending on property, such as your house, it is likely that they will receive a commission based on the amount of your loan. If the adviser has referred you to a Mortgage Broker, they may receive a referral fee. This must be disclosed in your Statement of Advice.

Additional One Off Fees:

Estate Planning

If your adviser offers to do your Estate Planning, and wishes to charge for this separately, it is likely that they are adding a fee to this service. If your adviser has referred you to an Estate Planning Lawyer, they may receive a referral fee. This must be disclosed in your Statement of Advice. If you want to know, ask!

Cash flow monitoring

Cash flow monitoring is becoming a more common service offered by financial advisers. The service is usually offered by a technology based company, and may be branded with your planners branding. Depending on the arrangement the advising firm has, there may be a portion of this payment that the adviser is keeping.

Other Outsourced services

All outsourced services have the potential to pay your adviser a referral fee. Any referral fee arrangement needs to be disclosed in the adviser's advice to you. Examples of other outsourced services include accountancy, establishment of Self-Managed Super Funds, and even the purchase of property.

ALTERNATIVE FEE STRUCTURES

PER HOUR FEE

If you are seeking specific advice on a specific subject, and are not looking for an ongoing relationship with an adviser, it is possible to pay an hourly fee. This is a similar arrangement to an accountant or solicitor. Each adviser will charge differently, however in my experience the hourly rate that most advisers charge ranges between \$200 and \$500 per hour.

FEE FOR RELATIONSHIP

Whilst not very common at this time, there are a few advice firms that have started charging a fee that includes everything that the adviser does for the client, expressed as a single figure.

This is the approach that I have taken with my firm.

The philosophy behind a Fee for Relationship Fee is:

- ☐ You know what your total cost of advice is
 - ☐ You can contact your adviser without fear of additional fees
 - ☐ You don't need to worry that a change in your life will cost more
-
- ☐ You can be assured that the advice provided is tailored to your needs without any requirement for have a certain product so your adviser can collect fees.
 - ☐ You will receive discounts on financial products that usually have commissions built in
 - ☐ Fees range widely in the market currently as so few advisers are charging this way.
 - ☐ Fees start at approximately \$5,500 per annum and range up from there.

CASE STUDY #1

HOW AN AVERAGE ADVISE FIRM CHARGES

Advice Process Stage	% or \$ Fee	Total Dollar Fee
Initial Meetings	No Charge	\$0
Statement of Advice	\$2,200	\$2,200
Implementation of Advice	1.1% of \$250,000	\$2,750
Insurance	120% of first years premium	\$3,600
Total Initial Cost		\$8,550
Ongoing Advice Cost		
Ongoing Advice	1.1% of \$250,000	\$2,750
Insurance	10% of Annual Premium	\$300
Total Ongoing Advice Cost		\$3,050

It is likely that you will need at least one Statement of Advice document annually, at a possible cost of \$2,200.

WHO ARE THEY?

- ☐ Bill and Betty Thirty-Odd
- ☐ \$450,000 Mortgage
- ☐ \$250,000 Superannuation
- ☐ Nil Investments
- ☐ \$3,000 per annum in personal insurance premium.



CASE STUDY #2

FEE FOR RELATIONSHIP ADVICE FIRM		
Ongoing Relationship Fee	\$6,600	\$6,600
Rebate/Offset of Insurance Commission	30% of Insurance Premium	\$1,000
Total Ongoing Advice Cost		\$5,600
If you have any additional circumstances, or there is a legislative need throughout the year, additional advice is included in your fee.		

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