PODCAST – The benefits of financial advice PART 2

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Chris: Hello, and welcome to the **Plum Super Podcast Series**

My name is **Chris Odgers** and I'm here today with my colleague, **Marcus Thompson**, two of your Superannuation Consultants at MLC Wealth. Our role is to provide information, guidance and advice to our super members throughout their working life and into retirement.

Chris: Hi Marcus
Marcus: Hi Chris, it's great to be here.

Chris: Today we're here to talk about the benefits of seeking personal financial advice – with this conversation being part two of a two-part series – and to assist us with this topic, I'm pleased to say we're joined again by a guest.

Welcome back **Liam Diggin**, who is a financial planner with Mentor1 Financial Advice. Thanks for joining again us to complete this topic.

Liam: Thanks Chris, great to be a part of this.

Chris: For clarity, Liam is licensed through Consultum Financial Advisers, one of the licensees under MLC Wealth.

Just to recap, this topic is all about the benefits of receiving personal financial advice and has been prepared for people listening who may never previously have met with a financial planner, AND for those who may have had a relationship previously with a financial planner, but that is no longer in place.

In the first podcast conversation we provided an introduction to the financial planning industry and explored the financial planning 'experience' from the point of view of a client, including the various meetings involved and information exchanged leading up to the various strategies that may be relevant and the provision of formal advice.

Marcus: And part two today?

Chris: In part two of this podcast series today we'll go into a bit more detail about the types of advice that can be provided, what is contained in a 'Statement of Advice' and some information around the costs of obtaining financial advice.

Liam is also going to take us through a real client scenario of his and how they have benefited from financial advice, to try and 'bring to life' the advice proposition, which I think will be very helpful.

Again, quite a few points to cover as part of this topic, with the ultimate objective remaining the same – that is, for people listening to better understand of the role of a financial planner, the reasons for getting advice and how it might help them.

Marcus: Liam, at the end of part one we concluded with you saying the first meeting with a prospective client is about getting to know each other and finding out where you can add value. We know that any formal recommendations ultimately need to be presented in the form of a written document – a Statement of Advice.

Naturally this advice document will be different for all clients, but really what is encompassed in a Statement of Advice, and does it follow a set style and include particular content?

Liam: Yes, the SoA can be a hefty document - so much for the paperless office! Seriously though, it is important, and it is set out in a way that we think is easy to navigate. So, this is what our typical SoA looks like.

We start off with an executive summary which sometimes can be well demonstrated using diagrams. Then we cover off what the advice is for – or in financial speak – the 'scope'; what the clients' agreed goals and objectives are, their current situation, their tolerance to risk and then we get into the nitty gritty of it all.

The recommendations are presented in detail showing strategies and products, and we even show some alternative comparison recommendations and products too. That part helps show people the reasons why we think using our recommendations will put the client in a better position, and that's important to be able to demonstrate.

Our retirement recommendations always show in-depth projections and modelling so people can see how much money they'll have left at any point in time and how long we expect it to last. Costs and fees are in the next section followed by an authority which the client signs should they wish to have the advice implemented.

Chris: And easy to read? With no jargon? I mention this because we know people have different levels of financial literacy, (and may be daunted by a large document).

Liam: Yes, it can be a substantial document, depending on their situation, but is set out using plain language that we think is easy to understand. And of course, if there are areas that need further explanation, we can assist with that, before any of the recommendations are accepted and implemented. That's all part of our role.

Marcus: What are the various items that are typically included in the advice you provide?

Liam: For people about to retire we'll look at their super fund, review the portfolio and investments, we look at fees and where we can do better – if it's appropriate, additional contributions, and then what sort of retirement income they think they might need. We'll look at Centrelink eligibility and the structure of assets, and we can assist with applying for Centrelink benefits.

Other items like budgets and wills or estate planning are generally applicable to pretty much everyone too.

Chris: And I'm guessing there must be some cases where your clients feel like they have some of these things already under control, and don't need your involvement?

Liam: Yes, that's correct. The client may ask us not to provide advice on certain areas of their situation, and that's fine. We call that limiting the 'scope' of the plan, and any such agreements of course are specifically documented in the SOA. Right at the start we make it clear what we are providing advice on and if we are specifically excluding any areas and the reasons why.

Marcus: And speaking about fees, we know the cost of obtaining financial advice has been topical in recent times, but what can you tell us about the approximate costs involved, or more broadly the structure of how you charge for your services?

Liam: Yes, a very important point.

There are many different models for charging fees within the industry. In our practice we charge a fee to produce the Statement of Advice. This can be a large piece of work and often incorporates a lot of research and projections to determine the appropriate strategies to recommend. Sometimes that might include things like family trusts or complex structures. We include our implementation costs in that initial advice fee.

Marcus: And what about ongoing advice?

Liam: We also identify if there's a need for a level of ongoing advice where we know there will be a need to adjust the plan based on certain events occurring. On the other hand, sometimes the advice can be 'set and forget'. And by that, I mean it might be structured in such a way as to set someone on the right path for quite a few years, and we might not really need to touch base again for a while. Or it could be advice that is quite simple and transactional.

But as we have already alluded, every plan is different and for that reason it is difficult to give an approximate cost. All our fees are flat dollar, that is, not percentage based, and before we provide the advice, we always demonstrate the value for the client.

Chris: To your point there Liam: Give me an example of how you may "demonstrate the value for the client" at this point of the process. Do you have a simple example for this that you can share?

Liam: Absolutely. So, one of my rules is that if I can't add value to a person's situation, I'll tell them. And to be perfectly honest, it doesn't happen very often! There have been many scenarios over the years where the fees my clients pay me have been far outweighed, in dollar figures anyway, by savings they've been able to gain. This might be in reducing fees charged by the investment fund itself (by pressing a few buttons), or structuring assets to enable the client to maximise Centrelink benefits, or even setting things up to save on tax.

Just as important though, I really believe that the true value of a planner's advice can be found when you've got clients who understand their plan and it does what it's meant to do. Putting people in the best position possible is where the real value lies, and that includes giving them peace of mind.

Marcus: And with respect to your earlier point about 'scoped' advice, can that have an impact on the fees charged for the advice?

Liam: Yes, it can. Fees can be charged based on 'holistic' advice covering the client's full situation or scaled for a more limited scope agreement. A good example of limited scope advice would be investing someone's super in line with their risk profile, where before it may have been in a default fund or cash, or other assets completely out of line with what's appropriate for that person.

Chris: And just on a related point, many people of course have existing investments before partnering with a Financial Planner; maybe some Telstra shares from the various floats or some managed funds. How is this situation normally treated? Do you provide advice on these too, or are they simply wrapped up in the client's overall portfolio?

Liam: It really depends on how the client wants us to deal with that. Some people prefer to keep that separate, other people like to package everything together. In contrast, sometimes it's also a good time for a spring clean of all the odd socks in the drawer, so to speak. And if someone isn't sure which way to go, we can run through the pros and cons of each scenario too.

Chris: Liam, back to the start of this conversation, I mentioned I would ask you about a real client scenario of yours to better illustrate the nature of financial advice and the benefits that can be achieved. Can you paint the picture for us of such a case please – without using real names of course? Maybe you can start with the various meetings that took place and what happened at each one, before a plan was put into place?

Liam: I have so many stories to tell! But let me tell you about a client, let's call her Mary. Mary came to me seeking advice about her employer super fund. She'd been accumulating money in her super for over 20 years and had a balance to show for it too. During our first meeting she told me she was thinking about retirement – the mortgage was paid off and the kids had all moved out a while ago. She wasn't sure how to turn the super savings into a pension income stream. So, the natural process of discovery for us is to drill down a bit into the super fund and find out where the money's invested and look at fees and insurance and anything else that might be eating into it.

Mary's fund had a fair bit of insurance attached and the premiums were pretty high compared to other providers. The way her super was invested attracted high fees too. Not only that, we discovered she had a few other super accounts from previous jobs too but wasn't sure who with or how to round them all up.

Chris: So where did you start?

Liam: What we did for Mary was look at her need for the insurance first. We like to conduct a risk needs analysis for our clients and that helps us determine what levels and types of insurance – if any – will best suit their needs and budget. Since she had no dependants or mortgage, we decided there was no need for it. Instant saving of I think it was about four and a half thousand dollars a year – that was coming directly out of her super savings. Next, we had a look at her risk profile and could see that her money was invested in some obscure and expensive funds that really didn't align with where she should have been.

Marcus: Just on that point, can you briefly explain "risk profile" and how you go about determining this?

Liam: Sure. Risk profiling follows the philosophy around the risk versus return scale. Many of your listeners would have come across that, or something like it, before – the higher the risk you take the higher the potential return, and conversely, the lower the risk, the lower the return. So, for example, if you were to leave your money in the bank or say in a cash fund within your super account, the return on those funds is currently below one percent which is a low return. But the risk of losing on that investment is extremely low – in theory.

On the other end of the scale, the potential return on your money that's invested in shares could be very high – we've all got that one mate that loves telling anyone who'll listen about how he tripled his money overnight by putting it all in one share. It does happen, but it's extremely risky as we all know. When there are certain world events, like the pandemic we're living through now, the share markets can be up and down by a huge amount in one day.

Marcus: So how do you work out a person's risk profile?

Liam: So, the way we work out a person's risk profile, or tolerance to risk is by asking a series of questions to which they pick the answer that best suits their attitude.

Some of those questions are about the timeframe a client expects for the investment of their funds – short, medium or long term. Other questions will focus around a person's appetite and capacity for risk, or the risk of their investment losing money or not generating enough income to meet their living expenses. Each answer has a point value and when you add them up you get a score. Your score will fall into one of 6 or 7 ranges starting from very low risk tolerance or very conservative all the way to very high-risk tolerance or appetite.

Chris: Thanks Liam, and back to Mary's story . . .

Liam: In Mary's case, by switching her investments to line the asset allocation up with her tolerance to risk, we were able to move her retirement savings into areas that suited her much better, especially given she was close to retirement. That alone reduced the admin and management fees in the fund by around seven and a half thousand dollars a year. We rounded up the other accounts she had so all her money was in one place.

After that work was done, we had some good in-depth discussions about her retirement plans and how she thought that would look. We decided on a retirement date that would coincide with her age pension age which was only 12 months down the track. We determined she would be at an advantage to make a personal contribution as well as keep some cash in the bank.

Marcus: And from there?

Liam: Next month I'm due to meet with Mary again and we'll bed down her pension strategy which will include a review of her risk profile and things like how much income she'll need on top of Centrelink.

And a final point worth noting: This case study is about a single person, Mary. But sometimes with couples I find their goals are not aligned, even after they have been together for 30-40 years, or sometimes longer. For example, I have seen situations where they both express a goal to do lots of travel in retirement but have never really discussed their destinations. Sometimes it turns out one wants to go to America and the other prefers Europe and has no interest in America. Or one doesn't want to travel overseas at all, preferring to tow a caravan around Australia.

So, a good idea, in my experience, for members of a couple that may be listening to this, to be discussing their goals together, particularly leading up to retirement.

Chris: Yes, sounds like a very good point Liam. And I understand in the case of Mary, that the advice was put in place several years ago. I am also very interested in the ongoing part of the relationship. How often do you typically meet with clients to review their plans, and can you think of events that have necessitated a major change to their plan?

Liam: Part of our ongoing service program includes unlimited access to me as the adviser via email, phone calls or in person. I recently had a couple, who've been clients for a few years now, sell their investment property and we were able to guide them on making a lump sum contribution to their super as they're only a couple of years from retirement – that kind of thing is something that's part of the ongoing service.

And it's important to note here that the client also has a role to play in the relationship. We need them to be making us aware of any changes that are taking place in their lives and with their financial circumstances. Its only then, that we can make any adjustments to the plan and make sure it stays on track to meet their ultimate goals. So, the annual review doesn't necessarily need to be timed for a set part of the year. We also want to hear from clients with details of any major changes that might need to be considered.

Chris: Liam, thanks for joining us today to discuss the benefits of seeking personal financial advice. It feels like we have covered a lot across our two conversations as part of this podcast topic.

As part of our roles as Super Consultants, Marcus and I work with corporate super members of MLC Wealth. We are big supporters of the value of financial advice and it forms a part of every interaction that we have with members. And as a part of that, we frequently arrange introductions for our members with a licensed financial planner and have also seen the benefits that it can have.

So, Marcus, if people are interested in meeting with a financial planner to discuss their situation, how can they go about it? And as we've done in the other podcasts, where can they go for further information about any other aspect of their Plum superannuation account?

Marcus: Yes, there's a few sources of support for our members:

1. The Plum website - www.plum.com.au

Lots of useful information here. We remind people it's a great idea to set themselves up with online access to their account if they haven't already done so. You can also check out our range of podcast topics here, via our **Financial Wellness Hub**, which can be accessed from the 'News & views' tab on the website.

On the **Financial Wellness Hub**, you will also find educational and interactive content that goes beyond superannuation, addressing your holistic needs, by providing access to industry experts and thought leaders.

2. Plum contact centre on **1300 55 7586**
   Between 8.00am and 7.00pm AEST, Monday to Friday

3. Conversation/personal financial advice

If you would like additional information on a more personal basis, a couple of options:

- There's a 1:1 conversation with one of our Plum representatives (such as Chris or myself) – General Advice basis. This can be booked for a convenient time, also via the Financial Wellness Hub.

- Or for personal financial advice, you can set up an initial complimentary meeting with one of our licensed financial planners.
  This can be initiated through the Plum contact centre - **1300 55 7586**

Chris: Liam, thanks again for assisting us with this podcast. I'm sure the information has been helpful and has provided some clarity around the role of a financial planner and the benefits of seeking personal financial advice.

And Marcus, for your role too in jointly hosting with me today.

A reminder that the content today is general information.

Thanks, and bye for now.

Liam and Marcus: Thanks everyone, bye from me too.