

Stakes are high over financial advice model

The industry is split between fixed fees or fees based on assets

JAMES GERRARD



Thousands of Australian consumers have fallen victim to poor advice from the financial planning divisions of banking giants such as CBA, NAB and Macquarie. As debate rages on how advice should be charged the stakes have escalated as the ALP, led by Bill Shorten, has promised to launch a royal commission into banking if it wins the federal election on July 2.

In tandem there are internal reviews at key institutions such as Commonwealth Bank while Rod Sims's ASIC has been granted increased powers.

At the heart of the financial advice debate is the issue of how people are charged for services. Sydney accountant Luke Star, from Star and Associates, says: “Financial advisers tend to keep their fees close to their chest and it can be a difficult task to work out if they are charging too much or if they are using an appropriate fee structure.”

Asset-based or fixed fee
Today, after many years of wrangling over the ideal “fee model” Australian financial advisers generally use either asset-based or fixed fees.

• **Asset-based fees:** With this arrangement financial advisory fees are levied as a percentage of the money invested for the client, usually at a rate of 1 per cent of the balance per year. A \$100,000 investment portfolio would attract a \$1000 per year financial advisory fee. This model flourished because the financial adviser had “skin in the game”. At its best if the investments rose in value, the financial adviser generated more fees and conversely if the investments fell, the adviser lost fees. There is a vested interest in seeing clients' wealth grow and as wealth grows,

generally so does the requirement for advice, hence an equilibrium with the fees charged and the services performed.

• **Fixed fees:** Matthew Leech, a financial planner at Incite Wealth, has moved to fixed fees. Leech explains that “it gradually happened over time. It didn't seem right to me to charge a percentage fee that was linked to how much investable assets the client had. What if the client is seeking estate planning advice or wants to talk about renovations to their house? I wanted a fee model which meant we could discuss any issues on their mind and have a fee in place which is purely designed to achieve the client's outcomes”.

Fixed fees or hourly charges use a remuneration model where a set fee is charged based on overall client needs as opposed to the amount of money invested.

Cameron Howlett, principal at Morgan Howlett Financial Planning, is also an advocate for fixed fees and has been using them for the past seven years. Howlett says “I think it's important to state that we don't just manage and invest our clients' assets, which in my view is where the typical asset-based fee model comes from. We also provide goals-based financial planning advice where we meet with our clients every six months to discuss how they are tracking against their stated goals and objectives, as well as strategic financial planning advice”.

Howlett and Leech said the lower end of fixed fee charges would be around \$3000 per year, a mid-level service around \$5000 and a high-level service around \$8000 per year.

A hybrid model
Wollongong adviser Leith Thomas, from Australian Financial Freedom, uses a hybrid of both fixed fees and asset-based fees. For strategic financial advice, fixed fees are charged, and for ongoing investment services, an asset-based fee is charged.

Leith feels that this is the optimal mix as clients pay fixed fees for his strategic advice only when they need it and ongoing asset-based fees for “managing portfolios according to each of our client's individual investment objectives”.

Leith argues that the fixed fee model is flawed as it is “reliant on

increasing the number of clients you have rather than increasing the value of their client's portfolio balances. In the global financial crisis, many blue-chip shares fell by over 50 per cent. Those paying a fixed fee would have watched their portfolios further eroded by the increasing fixed financial advisory fees (as a percentage of the portfolio balance). Those that paid an asset-based fee saw the dollar value of their advice fees reduce over this period which cushioned the blow.”

Morgan Howlett's Cameron Howlett takes a different view and sees fixed fees as removing the conflict of interest that the asset-based model ensures. “We recently took on a client that was on a seven-figure salary but poor in terms of their assets. We were able to help this client to recognise there was more to life than simply earning and spending and aligned their lifestyle goals with their financial strategy and they now have a financial road map.”

Marissa Broome from wealthadvice.com.au charges an hourly fee. “Some clients may pay \$100,000 a year and others \$2000 depending on what we are doing for them. My client with the most investments is my smallest revenue client to date this financial year but was a large source of revenue last financial year. The fee is a function of what we are doing” Broome says.

“My hourly charge is \$420 per hour but the firm charges lower amounts for some work to be done for clients that is administrative or of less complexity,” Broome adds.

A good financial adviser will be able to elevate their clients' position under any of the three fee models and a bad financial adviser will be able to ruin their clients' finances. Broome says “so long as the client knows what they are being charged and they see value in that price I don't think the model matters. The point is about professional, appropriate advice that is client-centric with appropriate remuneration that is fully disclosed to the client and valued by the client”.

James Gerrard is the principal of independently owned Sydney financial planning firm FinancialAdvisor.com.au



Male advisers have focused on portfolio returns while female advisers have focused on meeting financial objectives

Female planners find trends in their favour

STEVE GARMHAUSEN

Financial adviser Marcella Behman had difficult pregnancies back in the 1990s. Too sick to work from her Merrill Lynch office — and with work-from-home technology still a thing of the future — she had no choice but to hand over her clients to another adviser.

“I ended up having four kids,” says Ms Behman, now 53, who is based in Boston. “I rebuilt my business three times, almost from scratch.”

By her fourth pregnancy, in 2001, technology had evolved to the point where she could continue working, from home. But her experience is a testament to the challenges many women have had to overcome in order to become successful financial advisers.

Several top female advisers agree that the field has become increasingly hospitable to women, and there's evidence that more women are entering the business.

Although women still account for just 14 per cent of all US advisers, about 28 per cent of rookie advisers are female, according to Cerulli Associates. But top women advisers agree that there is still some way to go. Two areas crying out for improvement, they say, are the difficulty of balancing career and motherhood, and the dearth of women in leadership roles.

“The statistics speak for themselves — there are more women in the business,” says Cheryl Young, with Morgan Stanley in Los Gatos, California. “But we don't see as many women in higher-level positions, and I'd love to see that change.”

To be sure, the brokerage industry remains overwhelmingly male. It's also continuing to repair reputational damage done by high-profile sexual-harassment cases. And movies like *The Wolf of Wall Street* aren't likely to send women flocking to the field.

To hear successful female advisers describe it, the financial-adviser business is tailor-made for women. That's particularly true as the industry shifts from commission-driven stock sales to fee-based, consultative planning, says Behman.

Women tend to be good communicators and are adept at understanding wealth through the lens of family values and goals, she says. Indeed, many top women advisers say their gender has been more of a benefit than a detriment in terms of attracting and serving clients.

“It came naturally to ask some of the deeper questions my male counterparts might not have asked,” explains Patricia C. Brennan, an independent adviser in West Chester, Pennsylvania. “I'm often surprised at how much peo-

ple will tell me — they know they can trust me.”

According to a 2013 study by the Insured Retirement Institute, 70 per cent of women who are seeking a financial adviser would prefer to work with a female. That's especially noteworthy, considering that women in the US control 51 per cent of the country's wealth, according to the Federal Reserve, and that number is projected to reach two-thirds by 2020.

Women are adept at understanding wealth through the lens of family values and goals

Meanwhile, it has become a little easier for women to join the industry, notes Ms Behman. They can start as analysts or join an established team as a client associate or junior adviser, she says. “When I started, I was literally handed a phone and a phonebook,” says Ms Behman. “There are far more ways to enter business today as a woman.” Ms Brennan agrees. “Women are becoming less intimidated by the profession,” she says.

Then there's the leadership gap. A 2014 report by the Centre for American Progress found that women make up 54 per cent of the

financial-services labour force but only 12 per cent of its executive officers and 18 per cent of its directors. That problem is not unique to the financial services industry, it should be noted.

Part of the solution, many female advisers agree, is increasing the overall number of women in the field. To that end, advisers like Audree L. Begay make a point of hiring and supporting other women. Ms Begay's associate adviser, Cecilia Garcia, started as her assistant, and on June 1, Ms Begay hired another associate adviser, Marla Fudro.

“In my own practice, we're trying to make it more level,” says Ms Begay. “I want to provide others with the opportunity I had.”

If women are still working on levelling the playing field in terms of career, they have already helped to shift the client-care culture, argues Ms Brennan. Historically, male advisers have focused on portfolio returns benchmarked to an index, she explains. Female advisers have focused less on the horse race and more on helping families meet concrete financial objectives — undoubtedly a more sensible goal.

“It's not that women need to catch up with men; it's the other way around,” Ms Brennan says.

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SMSF investors should consider splitting concessional contributions with spouse

MONICA RULE



In the federal budget, the government proposes to reduce to \$25,000 per annum the amount of concessional contributions that people can make into superannuation funds, effective from 1 July 2017. This includes salary-sacrificed superannuation contribu-

tions, employer superannuation contributions, and deductible superannuation contributions.

The government also proposes, from July 1, 2017, to restrict superannuation pension account balances to \$1.6 million where a tax exemption is available on investment earnings.

Any pension account in excess of \$1.6m will need to be transferred back into accumulation phase, where tax is payable at a maximum of 15 per cent on investment earnings. If the excess is not transferred back into the accumulation account, excess contributions tax of 49 per cent may apply on the excess amount as well as any earn-

ings. So how can a self-managed superannuation fund investor ensure they have enough money on which to retire without exceeding the proposed superannuation limits?

One way to ensure more money can be contributed into an SMSF as well as maintain a pension account balance of under \$1.6m is to split your concessional contributions with your spouse. Here's the three key factors in splitting:

1. Concessional contributions you make into your SMSF can be split into your spouse's superannuation account, provided your spouse is under their preservation

age or aged between their preservation age and under 65 and not retired from the workforce.

2. The maximum amount that can be split, for a financial year, is 85 per cent of the concessional contributions made into your SMSF in that financial year up to your concessional contributions cap, bearing in mind the current limits of \$30,000 or \$35,000.

3. The split must occur in the financial year immediately after the one in which you made the contributions. This means the concessional contributions that you have made in the last financial year (2014-15) can be split in the current financial year (2015-16).

There is only one month left of this financial year, so if you are planning to split your contributions you need to act quickly.

You may also need to use the tax office's “contributions splitting form” NAT 15237.

The contributions that you made in the current financial year (2015-16) can only be split, if your entire superannuation entitlement is being withdrawn before the end of the financial year (June 30, 2016) as a rollover or a transfer to another superannuation fund and/or paid out as a lump sum superannuation benefit.

You also need to remember that if you split your concessional

contributions with your spouse, the full amount of the original contributions counts towards your concessional contribution cap. It does not reduce your cap.

You cannot also claim the spouse superannuation contributions tax offset for contributions split to your spouse's superannuation account. You cannot split non-concessional contributions, only concessional contributions.

I know this still means you can only contribute up to your concessional contributions limit, which could be as little as \$25,000 if the new limit becomes law; but, it does mean your spouse is able to receive more than their concessional

contributions limit and it may assist both of you to maintain pension accounts under \$1.6m each.

Just remember that the \$1.6m pension account balance is per SMSF member and not per superannuation fund. The more members you have in your SMSF, the more that can be contributed and maintained.

Monica Rule is an SMSF specialist and author of *The Self Managed Super Handbook — Superannuation Law for Self Managed Superannuation Funds in plain English*.

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