

Value of Advice

This Report has been
prepared for the
Financial Planning Association
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1. Executive Summary

1.1. Our Brief and Background

The Financial Planning Association (“FPA”) commissioned Rice Warner Actuaries to undertake a detailed review of the value of obtaining financial advice and of acting on recommendations from a financial planner. We also reviewed the benefits of obtaining limited or single issue advice.

The review estimates the cost of delivering financial advice to consumers and comments on the difficulties of providing advice efficiently under the current regulatory regime.

In order to quantify the value, we have reviewed and analysed a number of case studies. From this analysis, we show the benefits which can be realised from using professional advice.

The key purpose of this report is to provide reliable well-researched information on the industry. This will assist the following interested parties:

- Regulators
- Government
- Consumers
- FPA members

1.2. What is Advice?

Financial advice is advice provided to an individual or family to assist them to grow, manage and protect their wealth. It includes strategic advice, recommendations about suitable investment classes, appropriate products (investments, superannuation and insurance) as well as explanation of the impact of legislation, taxation and other external factors on their financial position.

The Corporations Act defines advice and explains who is authorised to provide advice. The relevant section is set out as Appendix A. In summary:

A person provides a financial service when, amongst other things, they provide *financial product advice*. *Financial product advice* means a recommendation that is intended to influence someone to make a decision in relation to a financial product.

There are two types of financial product advice, namely *personal advice* and *general advice*. *Personal advice* is financial product advice that is given to a person in circumstances where the provider of the advice has considered one or more of the person’s objectives, financial situation and needs. *General advice* is financial product advice that is not personal advice.

1.3. Complexity and Cost of Advice

The cost of delivering advice is relatively high due to the strict regulatory regime, the costs of running a business (including professional indemnity insurance), the high infrastructure costs of platforms, and the salaries of competent experienced financial planners.

These costs can be kept to a relatively small percentage of assets for clients with large investments. However, the cost of delivering advice on the traditional model is prohibitive for the average Australian.

The table below shows the difference in cost, delivery and complexity of various pieces of advice. The costs and complexity increase when all of the client's circumstances are considered and advice is monitored regularly.

When an individual determines they want to plan their financial future, they can begin by using simple calculators or reading books about finances. Although the cost of this is negligible, almost all people lack the ability and commitment to plan properly by themselves.

They can obtain basic support through one-off advice via call centres. This can assist with setting proper budgets or following a plan for paying off their debt. This is a first step to organising their finances. It is also possible to begin to create wealth by obtaining limited advice on single issues, such as how to take advantage of superannuation concessions. While limited advice is beneficial, it does not maximise long term benefits.

More complex matters need to be dealt with face to face. There is value in a single review but the most comprehensive advice is provided through a continuous service with frequent reviews. This holistic advice requires a personal relationship with a financial planner and advice which takes into account all aspects of a client's personal circumstances.

Costs rise with the level of service provided and the complexity of personal circumstances. The range of fees charged varies significantly and depends on a number of factors including the complexity of the circumstances, the qualification of the adviser, the frequency of review, and the level of support required by the client.

Financial planners with the DFS and CFP designations would generally provide a comprehensive ongoing service. Limited advice might be provided by those with an RG 146 level of education.

The estimated costs were derived from interviews with several dealer groups and the published costs of some limited advice services.

1.4. Value of Advice

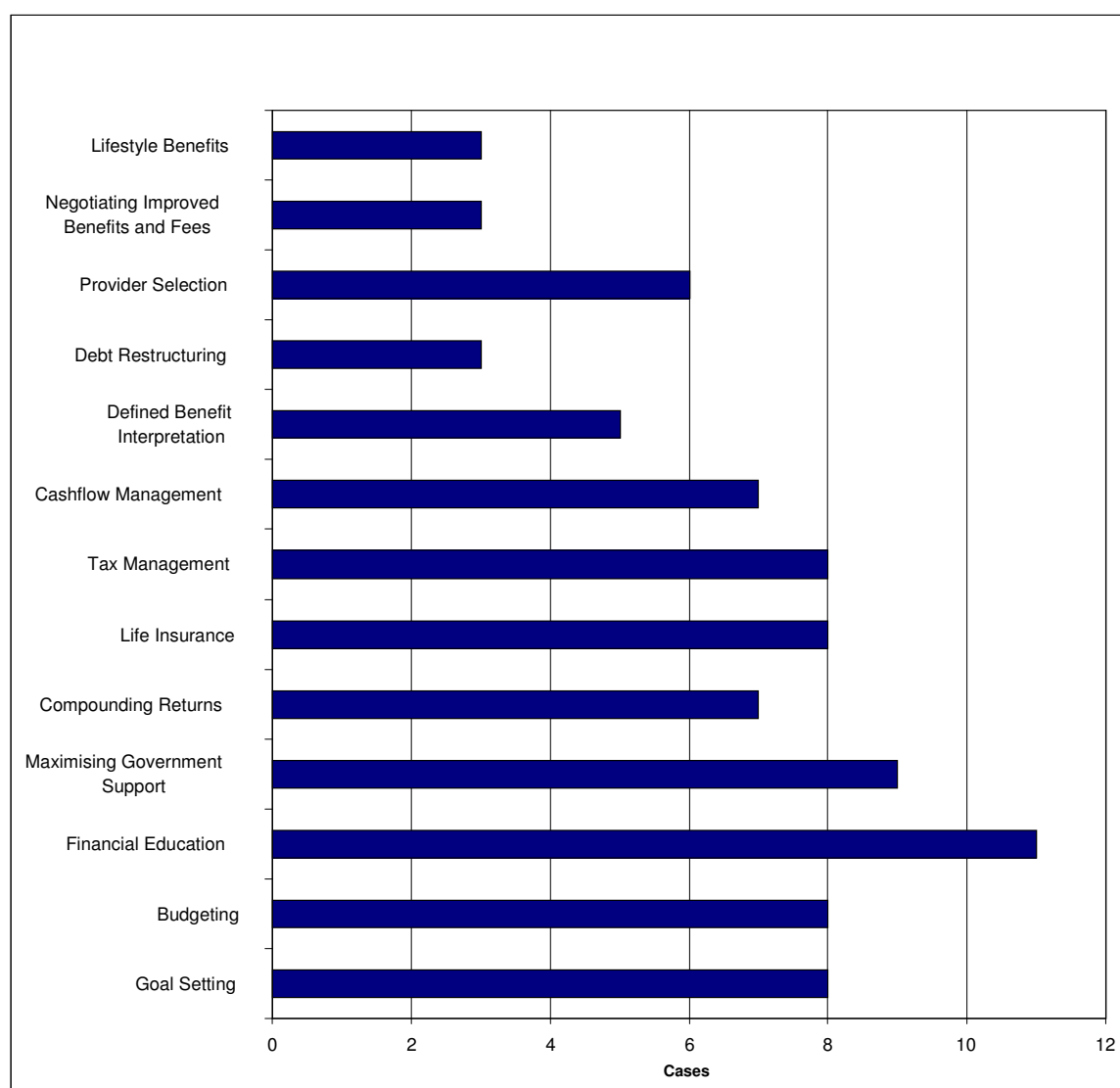
The FPA provided Rice Warner with a number of case studies for analysis. These were all examples of holistic advice for individuals and families.

In order to measure the value of limited advice, we created a few cases. These are typical of advice provided by some Call Centres to superannuation clients.

1.4.1. Type of Value Added

The value added by financial advice can be categorised into many components. Some of these are common and appear in a number of scenarios. Here is the frequency of these items from the FPA case studies.

Table 2. Components Generating Value in the Case Studies



The drivers represent good examples of the experience, skills and understanding that the financial planner (or adviser in the case of the limited advice cases) offer to their clients.

The item “Provider Selection” includes choice of platform, superannuation fund, insurer and fund manager.

Of the 12 cases, 11 included some advice about financial education, 9 incorporated strategies maximising government support, such as the Age Pension or co-contribution, and 8 integrated managing tax, insurance, budgeting and goal setting.

1.4.2. Quantifying the financial value of advice

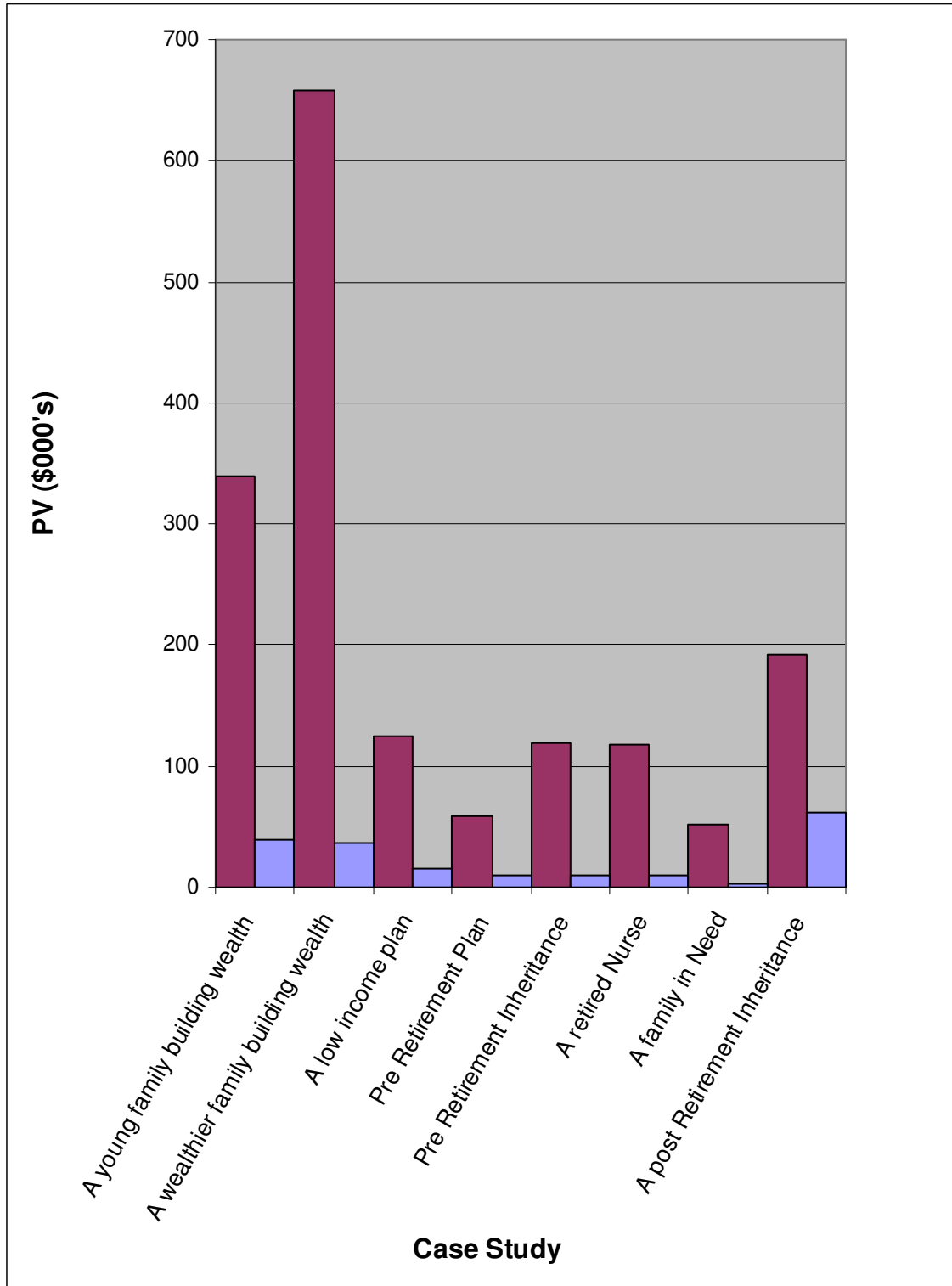
It is not easy to *quantify* the above factors. However, there are some aspects which are common to many plans. As every case is different, the value will vary.

The case studies identify 15 key drivers of value. Our framework focuses attention on the main purpose of the advice obtained and the period over which the advice is meant to accrue value. We have calculated the present value of the advice given.

We have shown the present estimated value of the cost of advice over the planning period. Some of the case studies have explicitly identified this cost; for others, we have assumed a typical adviser review fee of 0.6% pa on assets under advice where that is appropriate.

The charts below show the value created for each case study. The value varies from case to case as there are differences in relative income and expenditure patterns, time horizons and goals. There is a key advantage in having an ongoing relationship with a financial planner in order to maximise opportunities and to build the discipline of maintaining the long term plans.

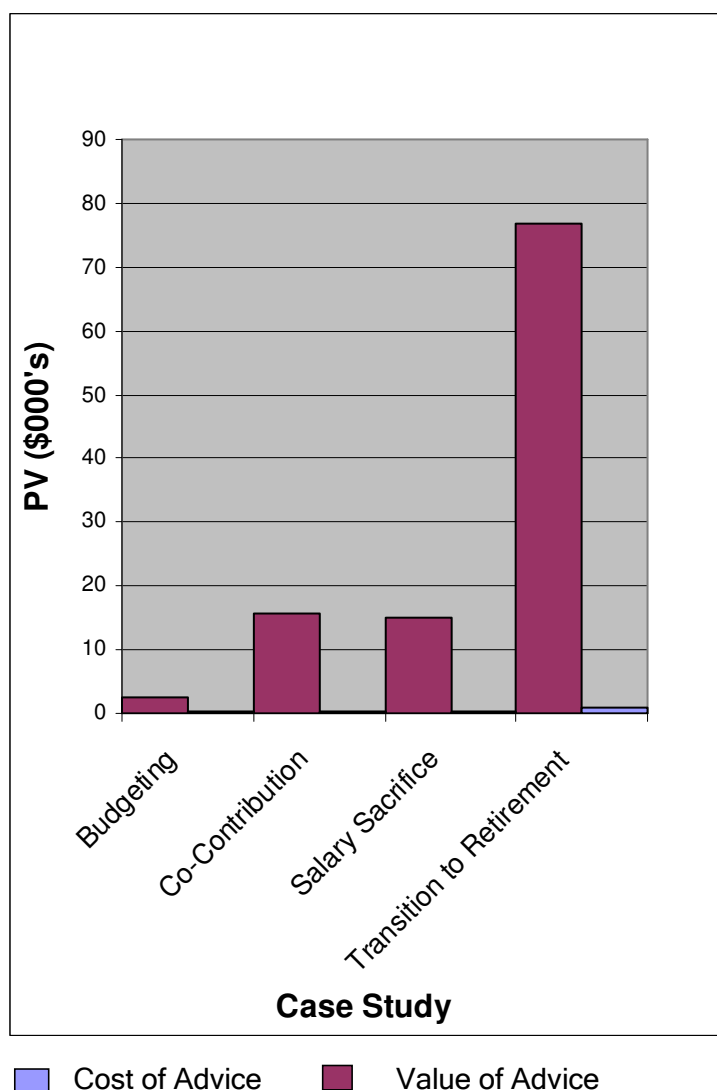
Table 3. Value Added relative to Cost of Advice - FPA Case Studies



■ Cost of Advice ■ Value of Advice

The calculated value for the 8 case studies combined is \$1.7 million.

Table 4. Value Added relative to Cost of Advice - Limited Advice Case Studies



It is not surprising that limited advice adds a lower absolute value than comprehensive holistic advice. However, it does provide good value for the time involved and the cost.

1.4.3. *Unlocking Value*

In the case studies, we have identified 13 key areas, both financial and non-financial where value is generated. The case studies reveal that the non financial impact of advice is clearly valued by clients.

Examples include:

- Future cost avoidance arising through more planned cash and debt management;
- Reduction in lifestyle instability arising through appropriate insurance coverage, securing ownership of a home, and obtaining appropriate support from government agencies for disabled dependents; and

- Enhanced life opportunity arising through more focused business management, return to work strategies, lifestyle instability reduction, and acquisition of lifestyle assets.

1.4.4. *Emotional Value of Advice*

In addition to the financial value of advice, there is an *emotional value* provided from the peace of mind associated with a structured stable plan. For many people, there is huge benefit in having control over their finances, a plan for their future and financial protection against death or disability. These intangible benefits are priceless.

Some of the key intangible benefits noted from a recent research survey¹ include:

- peace of mind (66%);
- greater control of finances (63%);
- the prospect of a more comfortable retirement (62%);
- avoiding bad investments (54%);
- following a budget (47%); and
- the ability to save (46%).

1.5. Does society benefit from individuals using advice?

The impact of using financial advice is difficult to quantify collectively for all Australians. However, it is fair to state that almost everyone using advice will be better off, and by extrapolation, so will Australia as a society.

Broadly, the benefits are:

- Reduced debt that increases disposable income for more productive purposes;
- Higher rates of return on investments over long periods build wealth in real terms;
- Insurance protection keeps people from falling back on welfare; and
- Higher levels of savings reduce calls on government benefits both during and after retirement.

A financially literate and conscientious society will make better long term decisions. For example, we know that interest in superannuation increases with the size of the account balance. This ensures more people will manage their finances better.

Another benefit for society is the development of a thriving financial services sector. This adds to the vibrancy of the economy and creates jobs for Australians.

¹ Galaxy Research, March 2007

1.6. Conclusions

Financial advice is valuable and more Australians should receive it. Surveys of clients of financial planners are usually positive with high levels of satisfaction. The Galaxy survey indicated that 9 out of 10 Australians benefited from the experience of using a planner.

The cost of delivering advice, whether it is full service or limited to a single issue, is higher than it need be as a result of the regulatory regime and compliance costs. However, the rewards of following a plan should provide results far outweighing the costs.

Industry and government need to work together to improve accessibility and affordability of support to consumers in making good financial decisions. This will entail:

- Relevant and appropriate cost-effective regulation (eg Simplified Statements of Advice);
- Government and industry working together towards provision of more cost effective advice models to suit individual circumstances;
- Incentives for the average Australian to seek advice.

This Report was prepared for the Financial Planning Association by the following consultants.

Prepared by

Peer Reviewed by

Michael Rice
Director
12th December 2007

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12th December 2007

2. Cost of Advice

2.1. What is the cost of providing financial advice?

The costs of providing advice depend heavily on the nature of the advice being sought, the operational model and target market of the dealer group, and the framework in which the adviser works. There is a strong argument that the personal advice needs of the mass market are not being met because the dealer groups are constrained (mainly by legislation) from developing more cost effective operational models.

The nature of advice varies considerably, ranging from generic advice which is usually available as a service for free (perhaps as part of the services provided to members of a superannuation fund), through to complex full advice on a significant volume of assets.

Additionally, the business model of the dealer group through whom the advice is provided varies considerably. Some groups concentrate on very high net worth clients whereas others focus on clients requiring simple single issue advice.

Complexity is not directly correlated to the amount of funds held by a client. For instance, some quite complex planning is often needed when individuals are members of defined benefit funds and they may not have many assets outside their superannuation. The costs involved in the provision of complex advice need to be weighed against the benefits to be gained by the individuals receiving the advice and their capacity to pay.

The costs of providing advice are spread between the dealer (licensee) and the adviser. The structure of cost - recovery will vary by the type of remuneration model used. The total costs include various dealer services, compliance costs, research, provision of software and para-planning services. Also, the remuneration of staff in the dealer group and the relevant "on costs" together with similar expenses in the adviser's office need to be included along with the cost of purchasing PI cover.

While a number of these costs are fixed, many are variable and, other things being equal, the costs of providing advice should be similar across various sized dealer groups once a certain breakeven point has been reached. The major reasons for costs varying between groups can be found in the different business models in operation and, in particular, the target market of the particular dealer group.

Submissions to the Chapman Inquiry indicate that regulations are limiting the industry's ability to provide personal advice at a cost appropriate to the level of complexity and the type of service.

Some submissions used practical examples to demonstrate the nature and extent of the problem. Mercer stated that the cost of straightforward advice was prohibitive for many, with advisers often taking the decision to withhold advice on the basis that it would cost the customer more than it is worth. It suggested:

“There should be some greater flexibility. Somebody may come along and say, ‘I’ve got \$4,000 in this fund and I’ve \$1,000 in this fund; what should I do?’ If they go to a financial adviser, he will charge them \$700 minimum to say, ‘Yes, I think you should put it all in that fund,’ by the time he goes through and analyses all of the person’s individual circumstances, which he is required to do. You cannot get it too far wrong if you have \$4,000 in one fund and \$1,000 in another. The client just wants a five-minute piece of advice to verify that what he is planning on doing makes sense. He does not want to spend \$700.”

In another submission, Bendigo Financial Planning highlighted the case of a typical customer with:

“3-5 small existing policies totalling no more than \$15,000 and has become frustrated with the lack of any meaningful service from any of the super providers. The customer wants to know the most appropriate place to rollover and consolidate their super and make future contributions.”

Using this example, it outlined the costs associated with the SOA requirements:

- The SOA must include comprehensive comparisons between each "from" fund and the recommended "to" fund, clarifying and explaining differences in costs, fees, benefits, Management Expense Ratios, terms and conditions etc. The standard number of hours to complete any sort of meaningful assessment is around 10-15. Consequently, to simply meet our costs the customer would be required to pay between \$1,500 and \$3,000 for the work to be completed. Our experience is that customers are not prepared to pay this. Typically they are confused and can't understand why such a simple request can't be satisfied with a simple solution.
- Bendigo Financial Planning concluded that the regime was illogical and detrimental to those it was intended to protect:

“We have found that these customers, often seeing a financial planner for the first time, lose confidence in the financial planning industry and are bewildered as to how a regulatory environment has evolved where a qualified professional financial planner cannot provide a solution to a simple but important superannuation need.”

2.2. What is the cost to Consumers of obtaining financial advice?

Consumers are faced with a variety of remuneration options to pay for their financial advice (see 6.1.5). Both the quantum of payment and the method are agreed between adviser and client. Historically, the most common form of payment has been through commission expressed as a percentage of the money invested or the premiums paid on insurance policies. The payment is made through the investment platform or directly from the contracts. Commission is popular as a payment method since it requires little paperwork and the client need not pay separately for the advice (which is not always tax deductible).

An increasing number of advisers charge a fee as the method of collecting their remuneration. The fee may be paid separately or deducted from the account balance of their investment or superannuation fund.

The consumer is also subject to other costs within the product itself. Many financial products charge periodic fees, asset management fees and entry or exit fees. However these costs are not the cost of advice rather they represent the cost of administering the products themselves.

The following table shows the difference in cost, delivery and complexity of various pieces of advice. The costs and complexity increase when all of the client's circumstances are considered and advice is monitored regularly.

When an individual determines they want to plan their financial future, they can begin by using simple calculators or reading books about finances. Although the cost of this is negligible, almost all people lack the ability and commitment to plan properly by themselves.

They can obtain basic support through one-off advice via call centres. This can assist with setting proper budgets or following a plan for paying off their debt. This is a first step to organising their finances. It is also possible to begin to create wealth by obtaining limited advice on single issues, such as how to take advantage of superannuation concessions. While limited advice is beneficial, it does not maximise long term benefits.

More complex matters need to be dealt with face to face. There is value in a single review but the most comprehensive advice is provided through a continuous service with frequent reviews. This holistic advice requires a personal relationship with a financial planner and advice which takes into account all aspects of a client's personal circumstances.

Costs rise with the level of service provided and the complexity of personal circumstances. The range of fees charged varies significantly and depends on a number of factors including the complexity of the circumstances, the qualification of the adviser, the frequency of review, and the level of support required by the client.

Financial planners with the DFS and CFP designations would generally provide a comprehensive ongoing service. Limited advice might be provided by those with an RG 146 level of education.

2.3. Cost varies by type of advice

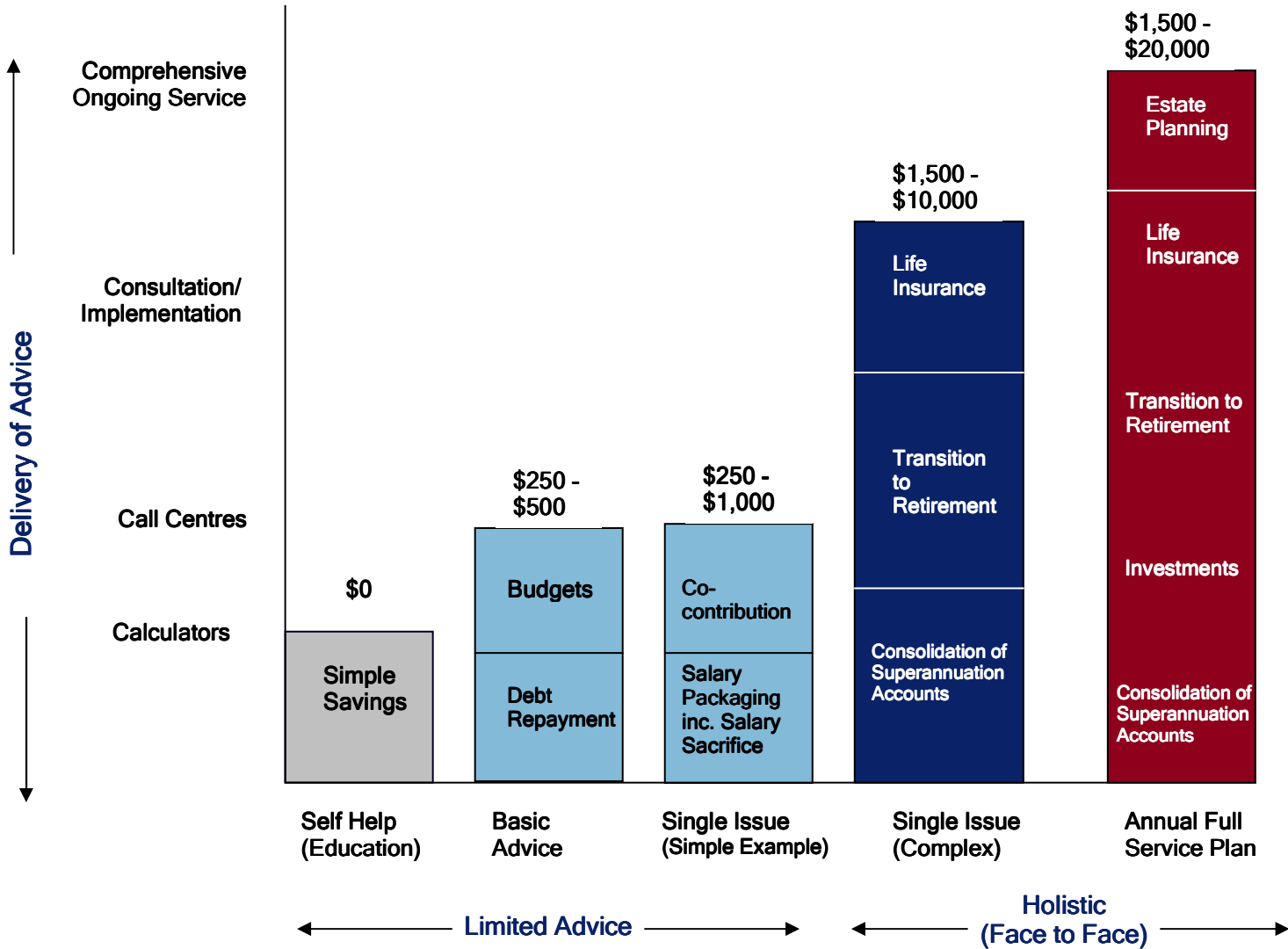
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Financial planners with the DFS and CFP designations would generally provide a comprehensive ongoing service. Limited advice might be provided by those with an RG 146 level of education.

The estimated costs were derived from interviews with several dealer groups and the published costs of some limited advice services.

The cost structure can be expressed diagrammatically as follows:

Table 5. Type of Advice



3. Value of Advice

3.1. Case Studies

The FPA has provided Rice Warner with several case studies of financial advice given over the last two years. All these studies provide examples where individuals and families have benefited from receiving and implementing the financial advice.

We have assessed eight recent real life examples. These illustrate how financial advice has helped people understand their situation, navigate the financial market place and gain control of their financial situations.

For the real life case studies, all names mentioned in the report have been changed and some of the background information has been modified to reduce the chance of identification.

We have also added various theoretical case studies to show the value of obtaining practical advice for specific financial issues, namely:

- An example relating to the value of financial budgeting and disciplined spending; and
- Some examples of utilising tax concessions to gain higher superannuation benefits.

The latter “single issue” advice is typical of the type provided by superannuation funds via Call Centres.

In most cases, the financial advice leads to immediate savings. In addition, it brings clarity to each client’s financial position and more certainty about their future. The security and comfort provided is an intangible emotional benefit which should also be taken into account.

These case studies show how real value has been added through financial advice given to many individuals at different stages of life and in diverse situations. All of the cases demonstrate that the advice benefited the customer.

3.2. Unlocking Value

Value is added by the adviser in many ways. In the case studies, we have identified 13 key areas, both financial and non-financial where value is generated. The case studies reveal that the non financial impact of advice is clearly valued by clients.

These areas include avoidance of future costs, reduction of lifestyle instability and enhanced life opportunities. Examples include:

- Future cost avoidance arising through more planned cash and debt management;
- Reduction in lifestyle instability arising through appropriate insurance coverage, securing ownership of a home, and obtaining appropriate support from government agencies for disabled dependents; and
- Enhanced life opportunity arising through more focused business management, return to work strategies, lifestyle instability reduction, and acquisition of lifestyle assets.

3.3. Single Issue Advice

3.3.1. *Budgeting*

Budgeting is the first step towards building wealth. Young people often accumulate large debt and have little understanding of how to manage their finances. They usually know very little about wealth accumulation. Consequently, there is significant value added from the development and implementation of simple financial advice, such as budgeting.

We provide an example showing how disciplined budgeting can significantly reduce debt over a reasonably short period and place the person in a position where they can save for a holiday or home deposit. More importantly, the development of a sound savings habit early in life is a critical first step towards wealth accumulation.

3.3.2. *Funding Superannuation*

Superannuation provides a number of tax concessions. However, the structure of superannuation, the jargon used in the industry and the general lack of numeracy in the community makes it difficult for individuals to select the right option.

People on low incomes can make use of the government's **co-contribution scheme**. In some cases, a contribution to their fund of \$20 a week will be matched by \$30 a week from the government (paid to the fund as a lump sum a few months into the following financial year). Our example shows how a youngster paying \$8 a week for 5 years could generate an extra \$16,000 in today's value at retirement.

Employees who earn higher incomes will benefit from **salary sacrificing** into superannuation. This involves increasing the employer contribution above 9% and foregoing an equivalent amount of salary. It is generally beneficial for people earning more than \$50,000 to make use of this facility.

A relatively new concession is the **Transition to Retirement** strategy. This involves salary sacrificing quite large amounts and then drawing a pension to make up the disposable income lost through the reduced salary. The overall benefit is an increase in the savings within superannuation. The strategy is appropriate for anyone over age 60 and still working but may also be of advantage to some people in the age group 55 to 59.

The first two strategies are relatively simple and could be provided efficiently via a Call Centre supplemented by online calculators. The dilemma is engaging the member to make use of the service. However, the Transition to Retirement strategy is complicated and most members would need the assistance of an experienced planner to explain the concept and guide them through its implementation.

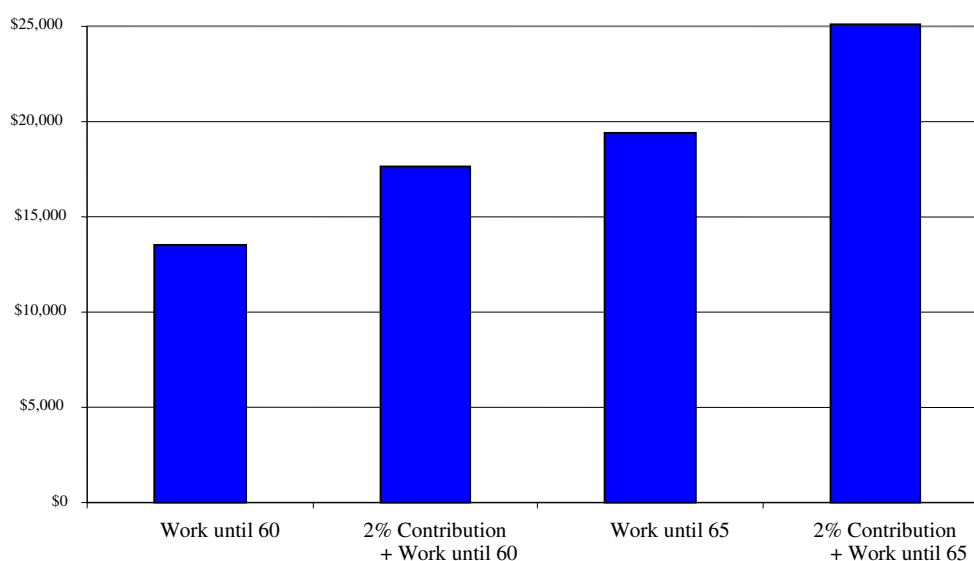
3.4. Face to Face Advice

Most financial planning consists of analysing complex financial circumstances and tailoring recommendations accordingly. This is difficult to do without a face to face relationship backed by comprehensive documentation.

The following chart shows how someone can benefit from changing their superannuation strategy over time. It is unlikely that they would do this without the support of a professional adviser.

We have used the example of a male worker who is less likely than a female to have broken work periods (for raising children). We assume he starts work on a salary of \$20,000 a year and moves to average earnings in his mid 30's. He then works to age 60 when his retirement income would be about \$15,000 a year. This increases if he makes a 2% contribution (taking advantage of the co-contribution in early years and salary sacrifice in later career). Finally, if he works to age 65, this increases the pension income even further - to more than double the amount of someone who relied exclusively on the SG for their retirement benefit.

Table 6. Ways to Improve Annual Retirement Income for Males



One of the key outcomes of the case studies is the intangible but real benefit from having “peace of mind”. A good strategy based on a sound plan provides people with comfort. People using a planner know they are on track to build their wealth and they know they will be told when external factors require a change in strategy.

There are eight FPA case studies which demonstrate the value added from a comprehensive financial plan. All show considerable value is added. Here are a few summaries²:

3.4.1 Young Family Building Wealth

A young family building wealth is often faced with compromising between accumulating wealth and living their desired lifestyle, whilst still supporting their children. In this case study, a financial planner was able to assist this young family in doing both.

² See separate value for detailed case studies

The planner was able to plan a 10 year strategy which would result in;

- Over \$300,000 of live style expenses being covered;
- A new, less onerous, job for the husband, including a pay cut;
- A newly drafted will and appropriate risk cover; and
- Other assets expected to grow as before.

While the improved financial value is clear, we should also recognise the importance of the emotional advice. The family can now focus on their personal goals; they are no longer limited by uncertainty over their financial future, they have a plan which allows them to live the life they desire.

3.4.2. Wealthier Family Building Wealth

A young family has ambitious wealth creating goals, but their situation caused them both stress. They were referred to a financial adviser through a relative.

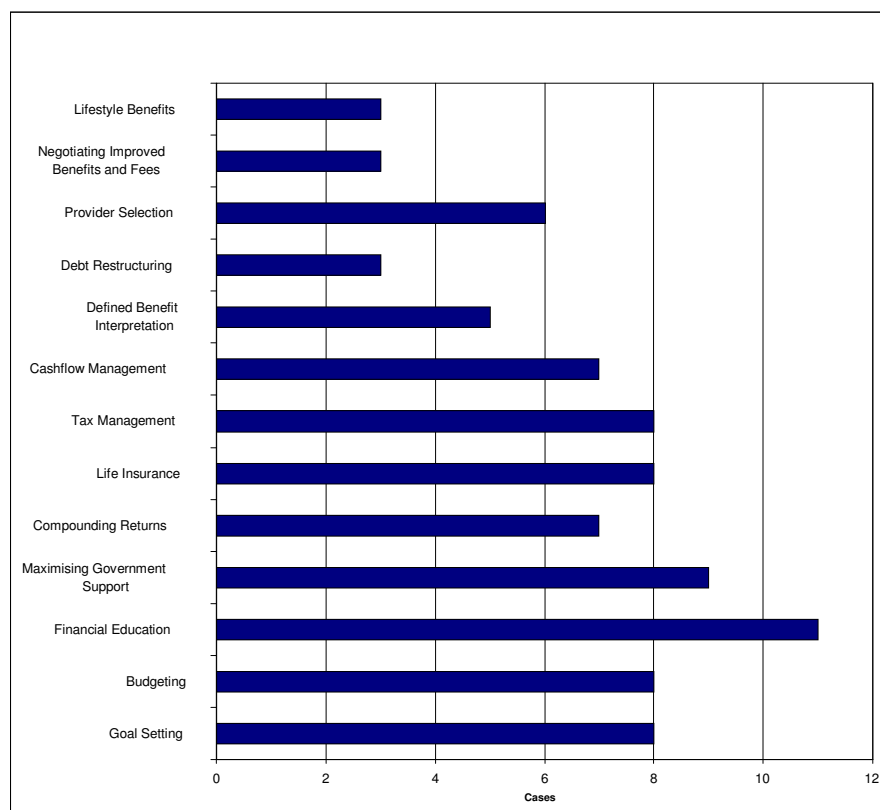
They struggled to differentiate business finances from personal finances, exposing the family to excessive risk and tax. Many of the family's personal assets were neither liquid nor tax effective. They did not have a will or any life insurance.

The financial adviser was able to assist the couple in planning for their financial future and harnessing the wealth they have already accrued. The adviser has been able to assist in setting up a trust to clearly distinguish between personal and business cash flows. The new trust creates a structure for future wealth creation and risk management and the family is more comfortable with the new arrangement than before, and they are far less stressed about their financial position.

3.5. Drivers of Value

It is not easy to quantify the factors creating valuable financial advice.

Table 7. Components Generating Value in the Case Studies



However, there are aspects which are common to good financial advice. The graph identifies which drivers are common in the case studies of this report. Every case is different and the value will vary in each case. Collectively, the end result in each case is value for the client.

The drivers represent the areas of experience, skills and understanding that the financial adviser can offer to their clients. Of the 12 cases, 11 included advice on financial matters, 9 incorporated strategies maximising government support, such as the Age Pension or co-contribution, and 8 integrated managing tax, life insurance, budgeting and goal setting into the advice.

These key drivers of advice were found to play a significant role in the service offered in each of the cases assessed in this report. Many of these drivers of value did not create quantifiable financial value to the client, yet they clearly (collectively) added value.

3.6. Quantifying the Value of Advice

The case studies identify 13 key drivers of value. This leads to the natural question of most consumers, being “what financial value is unlocked by obtaining and acting on advice?” We have chosen to use a framework which defines the value created as the present value of total increase in wealth over the client’s planning horizon.

The case studies have a planning horizon ranging from 4 years to 30 years. Our framework focuses attention on the main purpose of the advice obtained and the period over which the advice is meant to accrue value. One could argue that some value created is then not measured. For example, good advice covering accumulation for retirement will also accrue value as a person moves into retirement because the appropriate structures will already be in place. So, the value we have quantified is a low estimate.

Many of the case studies provided by the FPA contained explicit information about the wealth that was created over the planning horizon. However in some cases we have had to estimate the change in wealth using a model.

It is difficult to determine the share of the value unlocked for the client attributable to the advice received. For example, if as a result of receiving advice, a client determines to work an extra 2 days per week for 10 years and saves all additional earnings in superannuation their wealth will clearly increase substantially. The value unlocked is a result of the advice received and the client's personal exertion.

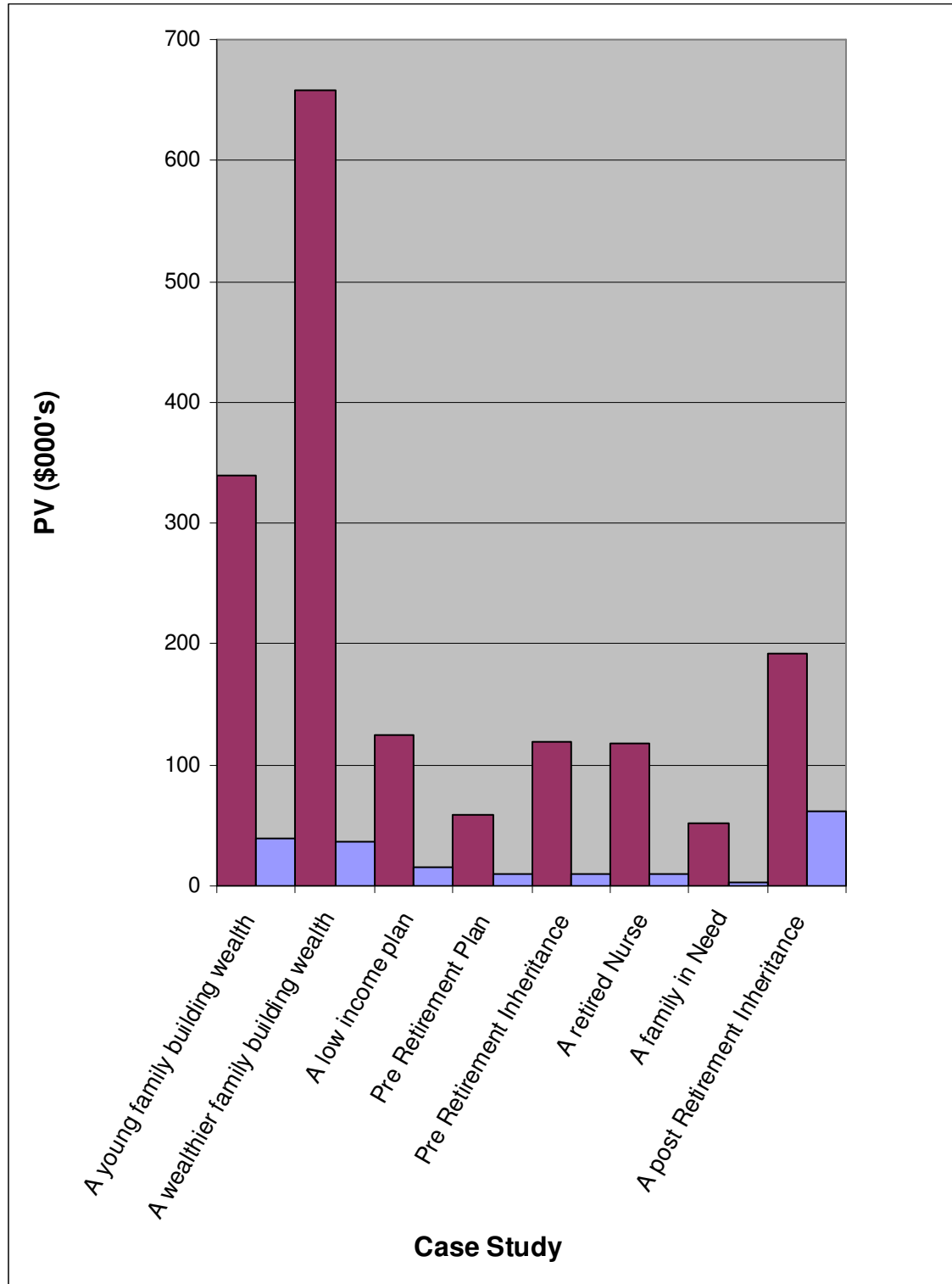
We have chosen to break out the value unlocked by the client deferring consumption and increasing savings or by transfer payments from government to client through co-contributions or pension payments. These amounts are a consequence of advice but can only be attributed to advice in a broad sense.

Some of the case studies have created value for the clients by identifying and locating assets that the client had lost track of or was unaware of. Clearly value is unlocked solely because of the advice. However, the value is essentially a windfall gain. Most clients of advisers would not be in this position and so it would be misleading not to separate the proportion of the increase in wealth due to the windfall.

We have also deducted from the unlocked value an estimate of the cost of advice over the planning period. Some of the case studies have explicitly identified this cost; others have assumed a typical adviser review fee of 0.6% pa on assets under advice where that is appropriate.

The case studies demonstrate that financial advice will unlock real value in diverse ways for clients. The twelve case studies reveal a number of fundamental value drivers beyond simply maximising portfolio returns through asset allocation or manager selection. The reason for seeking advice is often uncorrelated with the drivers through which value is unlocked.

Table 8. FPA Case Studies

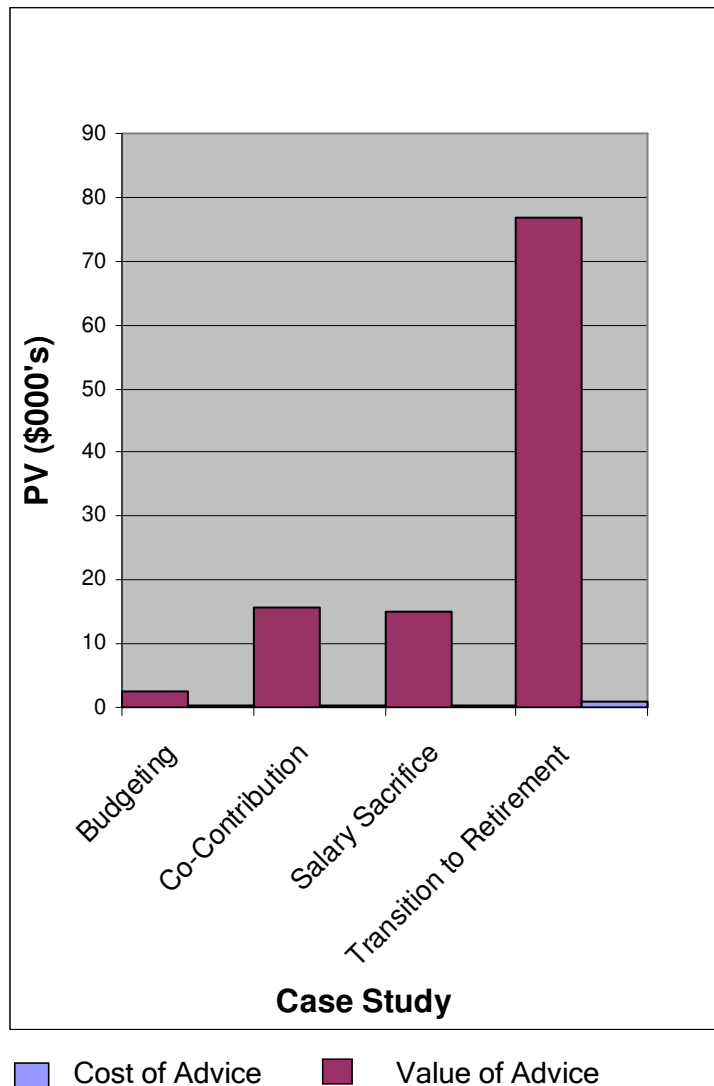


■ Cost of Advice ■ Value of Advice

The limited advice savings are generally lower in value than the full-advice studies reflecting that these do not take all aspects of an individual's circumstances into account.

The calculated value for the 8 case studies combined is \$1.7 million.

Table 9. Limited Advice Case Studies



3.7. Conclusion

The case studies demonstrate that financial advice will unlock real value in diverse ways for clients. The twelve case studies reveal a number of fundamental value drivers beyond simply maximising portfolio returns through asset allocation or manager selection. The reason for seeking advice is often uncorrelated with the drivers, through which value is unlocked.

A key question to resolve is whether an economically viable industry can be formed around providing personal advice to all who need it. Some circumstances are complex and solutions are expensive to deliver. Single issue advice goes a long way to delivering value to the masses at a reasonable price.

3.8. Diversity of Advice

As financial advice is largely about setting a strategy which will suit an individual, there are a wide number of outcomes. Solutions for individuals or families can include assistance with all the following issues:

- Basic budgeting and use of personal debt (credit cards and personal loans) - a disciplined and structure approach to daily financial management;
- Investment strategies including finding the right options for the client amongst a range of risk profiles;
- The value of accessing the superannuation Co-contributions;
- Salary sacrificing up to maximum levels to obtain a tax advantage and build sufficient assets in retirement;
- Retirement planning, including finding the right age to retire, tax issues and access to the Age Pension;
- Estate planning for retirees;
- The value and dangers of Reverse Mortgages;
- Protection through life insurance, including income protection, involving assessing the risks for a family in the event of death or disability;
- Product strategies, including the value of growth assets over simple banking products such as Term Deposits; and
- When an SMSF is appropriate and the advantages/disadvantages of these vehicles.

The advice can be given to people with a range of personal circumstances. As people move through life cycle changes, their needs will change and they will need a revision to their strategies. This is one of the advantages of regular reviews (at least annually). Some of the events which will trigger a change in circumstances include:

- Starting work ;
- Changing jobs;
- Getting married;
- Buying a house;
- Starting a family;
- Receiving an inheritance;
- Paying off a mortgage and having increased disposable income;
- Pre-retirement planning, including Transition to Retirement strategies; and
- Advice in the retirement years, which will change over the course of retirement.

3.9. Advice for more Australians

Financial advice certainly creates the most value when a holistic and longitudinal approach is taken to the customer's position and objectives. This is not always possible and financial advice on single issues will still have significant value for many people. Customers often need assistance in the navigation of simple financial issues such as eligibility for welfare payments, tax effective ways to contribute to superannuation and choosing an asset allocation within superannuation.

As most people cannot afford to pay a great deal for advice, mechanisms are needed to ensure the majority of Australians make use of sensible strategies. If nothing is done, we will continue to have large numbers of underinsured Australians and modest retirement benefits.

Simple advice can add value and clarity to many potential customers' financial positions. For example only 1 in 8 eligible people participate in the superannuation co-contribution scheme. As these people are low-income, they will not pay much (if anything) to find out about the benefits.

3.10. Does society benefit from individuals using advice?

The impact of using financial advice is difficult to quantify collectively for all Australians. However, it is fair to state that almost everyone using advice will be better off, and by extrapolation, so will Australia as a society.

Broadly, the benefits are:

- Reduced debt that increases disposable income for more productive purposes;
- Higher rates of return on investments over long periods build wealth in real terms;
- Insurance protection keeps people from falling back on welfare; and
- Higher levels of savings reduce calls on government benefits both during and after retirement.

A financially literate and conscientious society will make better long term decisions. For example, we know that interest in superannuation increases with the size of the account balance. This ensures more people will manage their finances better.

Another benefit for society is the development of a thriving financial services sector. This adds to the vibrancy of the economy and creates jobs for Australians.

Appendix A. Rice Warner Actuaries

A.1. Relevant Experience of Rice Warner

Rice Warner Actuaries has undertaken the research backing this report. Rice Warner is a licensee and holds its own AFSL. We provide advice to a range of organisations including many which have an interest in the financial planning industry. These organisations include dealer groups, owners of financial planning businesses, and manufacturers of financial products and suppliers of various services to the industry.

Rice Warner does not provide financial planning advice to members of the public. However, we are experts on all aspects of Australian financial advice models.

In compiling this report, Rice Warner has interviewed several dealer groups and has researched several limited advice models, particularly those based on industry superannuation membership.

Two years ago, Rice Warner conducted a detailed survey of financial planners on behalf of the FPA. This survey analysed remuneration over all products.

A.2. About Rice Warner Actuaries

Some facts about Rice Warner Actuaries

Rice Warner is an Australian-owned firm with its head office based in Sydney. Attributes include:

- Specialist capabilities in superannuation, financial services, life insurance and ageing (pensions, retirement villages, reverse mortgages etc).
- A large group of satisfied clients in all areas of our business.
- The partnership we develop with our clients.
- Acknowledged as the Australian experts in several fields including the financial impact of ageing, multi-employer superannuation trends and the life risk marketplaces.

Our clients include Australian companies, super fund trustees, financial institutions and dealer groups. We advise Government and several industry bodies. Rice Warner also provides expert actuarial advice and testimony to the Australian legal profession.

A.3. Profiles

Michael Rice - Director

Michael has extensive experience in the financial services industry both in Australia and overseas. He specialises in providing strategic advice to financial institutions, fund managers, government agencies, industry associations and large superannuation funds. Michael founded the firm in December 1987.

Michael has been at the forefront of research in the financial services sector. He has reviewed most retail and wholesale financial products, and prepared reports analysing fees and premiums, market and legislative trends, market share and product features. He has also undertaken pioneering research into Age Pension dependency and trends, and has a keen interest in the integration of social security and superannuation.

Michael is currently a columnist for ASSET magazine. He previously wrote regular columns in Money Management, and Personal Investor. He writes and speaks frequently on topical issues affecting the funds management, life insurance and superannuation industries.

Michael is a former Councillor of the Institute of Actuaries of Australia and has served on several of its committees.

Mark Griffiths - Principal

Mark joined Rice Warner Actuaries in 2007 after 8 years with Plum Financial Services where his role as Strategy and Delivery Manager saw him lead the strategic development program. Prior to working for Plum, Mark worked for National Mutual (now AXA Australia) for 11 years.

Mark has wide ranging experience in design & development of strategic product and process change initiatives. Mark has applied a blend of quantitative finance, strategy and project management skills to major innovations in corporate superannuation, retail funds management and insurance.

Mark has been involved in all aspects of the product development life cycle. At Plum he was responsible for designing & building a personal advice offer that was integrated into Plum's education & information based general advice program.

Mark is a Fellow of the Institute of Actuaries of Australia. Mark was a member of the Institutes Ageing Australia Taskforce and contributed to the taskforces submission on member investment choice.