Financial advice and you

Where to start

ASIC's MONEYSMART

Financial guidance you can trust

ASIC

Australian Securities & Investments Commission

About ASIC and MoneySmart

The Australian Securities and Investments Commission (ASIC) regulates financial advice and financial products.

ASIC's MoneySmart is our website for consumers and investors to help you make smart choices about your personal finances. It offers calculators and tips to give you fast answers to your money questions.

Visit **moneysmart.gov.au** or call ASIC on **1300 300 630**.

About this booklet

This booklet will help you with:

- the kind of financial advice you need
- the best place to get advice
- how to get the most from your conversations with a financial adviser.

Even if you're on a modest income you can benefit from financial advice. You may even be able to access some kinds of advice for free. This booklet explains all these things and more.

Contents

Why get advice?

The right kind of financial advice can really make a big difference. It can help you:

- set your financial goals and achieve them
- make the most of your money
- get any government assistance you're entitled to
- feel more in control of your finances and your life
- avoid expensive mistakes
- protect your assets.

Financial advice can give you confidence that your future plans are achievable.

If you're not on track to achieving your goals, financial advice can help you put the right strategies in place, or come up with more realistic goals.

Case study: Jim gets a reality check

Jim was 55 and wanted to retire in a few years. After retiring, he planned to buy a new car and travel overseas for at least 6 months. Jim thought he'd need about $50,000 a year in retirement income. Jim went to see a financial adviser about his plans.

The adviser explained that Jim didn't yet have enough money to fund the retirement he'd like. To help Jim get closer to achieving his retirement goals, the adviser outlined the pros and cons of different strategies, including working longer, increasing super contributions and downsizing to a smaller property. The adviser also explained how Jim's retirement income would be reduced if he bought a car and went on a big trip.

After receiving this advice, Jim decided he needed to rethink the length of his trip, stick to a budget and increase his super contributions. Jim was glad he got financial advice as he now has a realistic plan for his retirement and the steps to achieve it.

Smart tip

Use ASIC's MoneySmart online retirement planner

To find out the income you can expect to get in retirement from your super and age pension use ASIC's MoneySmart **retirement planner** at **moneysmart.gov.au**. It also lets you explore ways to better meet your goals.

When advice can help you

There are some turning points in your life where professional financial advice is particularly useful:

1. If you're approaching retirement.
2. If you're thinking about starting a family.
3. If you've been made redundant.
4. If you've inherited money.

These and other life events might prompt you to look at your financial future.

Important

Get licensed advice

Throughout this booklet we use the term 'financial adviser' to describe someone who is licensed to provide financial advice. A licensed adviser may also call themselves a 'financial planner'. See page 12 for more information on how to to check the financial advisers register to see if an adviser is licensed to give you financial advice.

Where to start

You may have avoided getting financial advice because you're not sure how a financial adviser can help you. You may also think you'll have to pay for a comprehensive and expensive financial plan. Depending on the kind of advice you need, you may not.

Smart tip

Get free financial counselling

If you need financial advice because you're having trouble paying your bills or need to sort out your debts, see a financial counsellor first. To find your nearest counsellor visit **moneysmart.gov.au** or call the National Financial Counselling hotline on **1800 007 007**.

Factual information

Instead of financial advice, you may simply:

- want factual information about different financial products and strategies
- need to understand more about financial services generally.

Online

There is a lot of information online that can help you with questions about your finances:

- ASIC's MoneySmart website – **moneysmart.gov.au**
- Australian Securities Exchange's online courses and education website – **asx.com.au**
- your super fund
- Financial Planning Association's Ask an Expert forum – **fpa.com.au**
- financial columns and blogs.

Banks, credit unions or building societies

Bank, credit union and building society staff can be a good source of free factual information about ways to save such as savings accounts and term deposits. This might be all the information you need if your main financial goal is saving for a home or building a savings buffer. Remember to shop around and compare products.

Smart tip

Use ASIC's MoneySmart savings calculator

Set up a plan to reach your savings goals with ASIC's MoneySmart **savings goal calculator** at **moneysmart.gov.au**

Your super fund

Your super fund can provide factual information, including:

- investment options within your current fund
- saving for retirement
- how to make extra contributions to your current fund
- consolidating multiple super funds
- insurance options within your current fund.

Seminars

The Department of Human Services' Financial Information Service offers free money seminars all over Australia. Topics include:

- managing your money
- reducing your mortgage
- investing
- understanding superannuation.

Financial Information Service officers can also give you information over the phone or at a face-to-face interview. Visit **humanservices.gov.au** or call **13 23 00** for more information.

General advice

You can get general advice about financial products or investing from someone who works under an Australian Financial Services Licence (AFSL). General advice does not take into account your particular circumstances, such as your objectives, financial situation and needs. For example, you may receive general advice when you attend a seminar about investing.

Case Study: Kathy gets general advice from her super fund

Kathy and her husband had just bought a new house. Kathy decided to check if the life and total and permanent disability insurance she had through her super fund was enough to cover her share of the repayments if she died or couldn't work any more. When she called her super fund the person she spoke to explained they could only give her general advice. Kathy was given information about the features of the insurance products and her current level of cover. She was also advised to consider all her debts and expenses not just her mortgage repayments. Kathy realised she needed to have a closer look at her finances to work out the level of cover she needed.

Smart tip

Financial services from an accountant

Accountants can give you information on specific tax situations and setting up a Self Managed Super Fund (SMSF). However, only licensed advisers can advise on investment strategies.

Personal advice

If you want a recommendation that takes your personal situation into account, you need personal financial advice.

For this kind of advice, it's important that you only talk to someone working under an Australian Financial Services Licence (AFSL).

See page 12 for more information on finding a licensed adviser.

Types of personal advice

Personal advice can range from simple advice on one topic to a comprehensive financial plan.

Some examples of personal advice are:

- **Simple, once-off advice on one issue** – This addresses a particular aspect of your finances (for example, the best way to contribute to your super).
- **Broader financial advice** – This involves a comprehensive financial plan to help you set goals and covers investments, superannuation, insurance and retirement planning.
- **Ongoing advice** – This involves regular reviews with a financial planner that reassesses your goals, financial position, strategy and investments.

See page 14 for more information on how you can agree on the scope of the advice with an adviser.

Different ways to get information or advice

Factual information or advice on simple topics can be given by phone, online advice services or email, while complex advice is usually better suited to a face-to-face meeting or video conferencing.

Internet options such as Skype also allow people in rural and remote areas to access advice.

Costs

The cost of the advice will depend upon the scope and kind of advice you receive. For more information on paying for advice, see page 20.

Choosing an adviser

Before you contact an adviser think about the kind of advice you want, and what you'd like to achieve from the advice. This will make your initial discussions more useful and help you find an adviser that suits your needs.

Steps to choosing a financial adviser

Step 1: List a few 'possibles'

Professional associations usually have 'find an adviser' services that will help you find an adviser in your area. They also have a code of conduct for members to follow.

Visit **moneysmart.gov.au** for a list of professional associations you can contact.

Step 2: Check the financial advisers register

Once you have a short list of possible advisers, it's important to check ASIC's financial advisers register. The register tells you the adviser's experience and employment history, the product areas they can provide advice about and whether the adviser has been banned or disqualified from giving advice.

The register also tells you the name and number of the Australian Financial Services Licence (AFSL) holder who employs or authorises the financial adviser to provide advice, as well as who owns or controls the licence holder. Many advisers are linked to banks, fund managers and life insurance companies. This can affect the services and products offered. Visit **moneysmart.gov.au** to check the register.

Step 3: Get their financial services guide

Once you have a few possible advisers, get a copy of their financial services guide (FSG) by visiting their website or by phoning and asking them to send it to you. The FSG will say what services they offer, how they charge and whether they receive any additional payments or benefits.

Step 4: Check for qualifications and experience

You should check if the adviser has the right experience and qualifications for your needs. During the conversation, make sure the adviser focuses on the services and strategies they can offer you, rather than the products they can sell you.

Step 5: Check they can advise on your current products

You should check that the adviser can provide advice on your current financial products. This is critical when it comes to super, as the adviser may not be able to give advice about your current fund, if it is not on their 'approved product list'.

Be careful of advisers who only sell one investment product or solution.

Step 6: Check the fees

Ask the adviser for an estimate of the cost of the advice. Even a rough estimate will give you an idea of what you'll be paying.

See page 20 for more information about the cost of advice.

Smart tip

Use these questions to check an adviser's qualifications and experience:

Q: How long have you been giving financial advice?
Listen for: Details about their level of experience.

Q: What qualifications do you have?
Listen for: Qualifications in finance, economics, accounting or financial planning. A diploma or degree qualification in one of these disciplines is desirable.

Q: What are your clients mostly trying to achieve?
Listen for: People with concerns and goals like yours, for example retirement planning or young families.

Q: How do you get to know a new client?
Listen for: Aims to get a full picture of your circumstances and needs by asking you questions about your current situation as well as your financial goals, both long term and short term.

Q: How do you deal with a client who has a few different financial objectives?
Listen for: Will help you prioritise your financial goals, explain and discuss choices with you and develop a strategy to achieve your goals. They should help you refine your goals if they are not realistic and achievable.

Working with a financial adviser

You've chosen an adviser. Now it's time to begin the process of getting advice.

Before the first meeting

Before you meet the adviser for the first time, do some preparation. Good advice depends on a clear picture of your financial situation.

For example, for retirement advice, you could start by listing:

- what you own – your home, savings, super, car, shares and other investments
- what you owe – debts, including mortgages, loans and outstanding credit card balances
- income and expenses
- what insurance you have and for how much.

Smart tip

ASIC's MoneySmart money management tools

Use the **budget planner** and **money health check** at **moneysmart.gov.au** to get a snap shot of your financial situation.

At the first meeting

Your adviser will need to collect detailed information about you. This is so they can work out your needs and objectives.

Give your adviser accurate information. If you are not honest with your adviser or leave things out, you could get advice that's wrong for your situation.

The adviser will need to know your financial needs and objectives. For example do you want:

- a strategy to pay off your mortgage sooner?
- a plan that covers all aspects of your finances?
- to build wealth and save for retirement?
- ongoing advice about investments?
- advice on consolidating super accounts?

You need to be clear about which issues will be covered, and which ones won't be.

Once you have established the scope of the advice, the adviser will be able to give you an idea of the cost. See page 20.

Know your risk tolerance

A good adviser will work with you to help identify the most suitable strategy to achieve your financial goals.

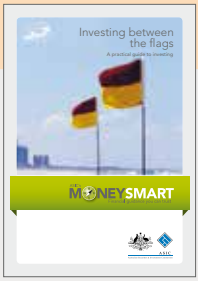
Part of this strategy should be to protect your capital and get reasonable returns, without exposing you to too much risk. Higher potential returns usually come with higher risks. Never agree to an investment product or strategy that you're not comfortable with or don't understand.

Your attitude to risk can change with time and circumstances. If you've agreed to ongoing advice, you need to tell your adviser if your ability or willingness to take on more or less investment risk changes.

Smart tip

Learn more about investing

For more information on the principles of investing, read ASIC's MoneySmart publication *Investing between the flags* available from **moneysmart.gov.au**.



Judging an adviser after the first meeting

Generally, the meeting will have gone well if:	You should reconsider your choice of adviser if:
The adviser: ▶ asks you about your circumstances and helps you identify goals ▶ has explained the scope of advice they can provide based on the amount you are willing to pay ▶ is happy to explain complicated financial concepts until you understand them.	**The adviser:** ▶ pressures you to sign documents that you haven't read or don't understand ▶ doesn't ask about or listen to what you want ▶ seems to be pushing one solution, regardless of your needs (e.g. a SMSF or borrowing to invest).
You: ▶ are confident that the adviser understands your situation, needs and goals ▶ are clear about the service you're receiving, what the advice will and won't cover, and how much it will cost.	**You:** ▶ don't understand why a particular strategy is appropriate for you ▶ don't feel comfortable asking for explanations or feel intimidated by your adviser.

The advice

At the end of the meeting your adviser will go away, do some further research and put together some recommendations. You will receive the recommendations in writing, usually at a face-to-face meeting, where the adviser will explain the recommendations and discuss the reasons for choosing one path or product over another.

You should receive:

- **a statement of advice (SOA)** – this sets out what the adviser recommends and why they think it's suitable. It's important to review this and consider how well it meets your needs and objectives
- **a product disclosure statement (PDS) for each product they recommend** – these describe the features of the products.

Do not sign or agree to anything until you have read and are happy with these documents.

What to look for in the advice

It's easy to be swayed by an adviser's confidence, approachability and friendliness. Don't let this affect how you judge the quality of their advice. Focus on the advice itself and make sure it's appropriate for you.

Take your statement of advice (SOA) home to read before you agree to anything. Advisers will often give you other paperwork to read. Be prepared to go through the advice carefully. It might help to review the advice in stages, beginning with the overall strategy and then moving on to the detail.

Write down any questions that come to mind as you read the advice and ask your adviser to clarify anything you're not sure about.

See page 19 for more tips on what to look for in the SOA.

Smart tip

It's your decision

The adviser will make recommendations, but you must decide if the advice is good for you. It's **your money**, after all.

What to look for in a good statement of advice

Here are some things to consider when you read the advice:

Your situation, needs and objectives:

- ☐ Does it address the reasons you sought advice?
- ☐ Are the recommendations relevant to you or could it be written for anyone?
- ☐ Does it refer accurately to your assets, liabilities, income and expenses?

The strategy and scope:

- ☐ If your financial needs are complex, does it compare strategic options, including presenting the advantages and disadvantages?
- ☐ Does it have a defined scope and explain what advice is and isn't being provided?
- ☐ Does it give you cash flow projections (where relevant) to show how the recommended strategy will fit your income and expenses?

The products:

- ☐ If the advice is to switch products, does it clearly explain what benefits you might gain and what you might lose as a result – for example, consolidating your super might save fees but will you lose some insurance?
- ☐ If it includes product recommendations, does it explain how these products fit into the overall strategy and your risk tolerance?

Paying for advice

The first meeting

The first meeting with an adviser is usually free. During this meeting, you and the adviser can discuss your advice needs and the adviser can give you an idea of what they can do to help you.

The adviser will also be able to tell you how much the advice will cost so you can decide whether to proceed any further. Make sure the cost is given to you in dollars, not just a percentage of the amount you have to invest.

Statement of advice fee

The adviser will prepare a statement of advice (SOA) that will formally document the advice, the strategies and any financial products they recommend. The cost for preparing the SOA will be billed to you or may be deducted, with your permission, from the balance of your investment.

The cost of the advice will depend on its scope. As a guide, expect to pay between $200 and $700 for simple advice and between $2000 and $4000 for more comprehensive advice. If you've agreed to ongoing advice, some of the cost may be paid over time.

If you receive advice about insurance, you may not have to pay for the SOA. This is because the adviser will be paid commissions from the insurance company. See page 22 for more information.

Even if you decide not to proceed with the recommendations in the SOA, you will generally be expected to pay for the preparation of the SOA.

Fee for implementing the advice

If you decide to accept the adviser's recommendations there may be a fee for implementing the advice. This pays for administration work.

You may be able to negotiate the rate with your adviser.

There are usually different options for how you pay. You can agree to pay upfront or the cost can be deducted from the investment.

Important

Protect yourself from fraud

To avoid fraud, never write cheques payable to your adviser if the money will be used for investments. Make the cheque payable to the product provider instead.

Ongoing advice fee

If you've agreed to pay a fee for ongoing advice, it's important to understand what your fee will cover. Services may include:

- regular newsletters
- regular reports on your investment portfolio
- regular reviews with your financial adviser
- invitations to seminars.

Many advice businesses have 'bronze', 'silver', 'gold' or 'platinum' services you can choose from, with fees scaled according to the services you receive or the amount of contact you can have with your adviser.

Advisers can charge another implementation fee in addition to your ongoing advice fee if you want to change your finances following a review.

If you've agreed to ongoing advice, you will receive an annual fee disclosure statement that will outline the fees you paid, the services you received, and the services you were entitled to receive for the previous 12 months.

Carefully consider the information in your fee disclosure statement:

- Have you benefited from the services you paid for?
- Were they worth the cost?
- Are you happy to pay the ongoing advice fee for another 12 months?

You can end your ongoing advice relationship with your adviser at any time.

Commissions

Commissions and volume-based payments for recommending financial products can influence the advice given by financial advisers.

Commissions are banned on new investment and super products from 1 July 2013. Some other commissions, for example for selling life insurance, will remain.

However, if you bought a financial product before 1 July 2013 the adviser may continue to receive a commission each year for advising on that product. The commissions will continue to be deducted from the money you have invested until you leave that product or end your relationship with that adviser. See page 25 for more information.

Information about commissions may not be included in your fee disclosure statement.

Case study: Tom checks his fees

Tom has been receiving advice from his financial adviser for the last 15 years. Tom has a portfolio made up of various managed funds. Tom's financial adviser receives trail commissions of around 0.6% each year directly from the fund managers. The trail commissions are the only fees Tom's adviser receives for his ongoing advice services to Tom. In this situation Tom's financial adviser is not obliged to provide a fee disclosure statement, although he may choose to do so. Tom can look at his statement from each fund manager to understand the commissions and total fees he is paying.

Find out about the fees you're paying

If you're unsure about the fees you're paying, talk to your adviser. Ask them to explain the products you have investments in and whether they pay commissions.

If commissions are being deducted from your investment and you're not happy with this arrangement, speak to your adviser about your options. You may be able to switch to a product that doesn't pay commissions, or arrange for the commissions to be rebated to you.

Smart tip

Carefully consider your options

It's important that you choose the right adviser for your needs. Check the advice regularly, and make sure you understand it and are happy with what you're paying for.

How to complain

If you're unhappy with any aspect of the advice or service you receive, try to talk it over with the adviser. If you are still not satisfied (or your adviser won't meet with you) you should make a complaint through the adviser's internal dispute resolution system. The adviser's financial services guide will tell you how to do this. You can also complain to the adviser's professional association.

You should receive an acknowledgement letter from the adviser's internal dispute resolution system within 14 days. They have 45 days to give you a final response. If you're unhappy with the response, you can contact an external dispute resolution scheme. The business must tell you which scheme it belongs to or you can call ASIC's Infoline on **1300 300 630**.

Smart tip

Keep your paperwork safe

Stay informed about your investments by keeping all your paperwork and checking for errors or things you don't understand. Be sure all mail or emails about your investments are sent to you, not to your adviser.

Ending your relationship with an adviser

If you decide to end your relationship with an adviser, there are some things you should consider first.

Some financial products can only be accessed through a financial adviser, so if you decide to end your relationship with them you may also have to leave the products they recommended, or get a new adviser.

The implications of this may include:

- selling and buying costs
- changes to any government assistance you're receiving
- being out of the market (which could be an advantage or disadvantage depending on timing)
- income and capital gains tax.

If you decide to switch advisers or leave an investment product, you need to be satisfied that it is worth the cost.

Glossary

Australian Financial Services Licence (AFSL)
A licence given by ASIC that allows people or companies to legally carry on a financial services business, including selling, advising or dealing in financial products. You should only deal with licensed businesses as you are better protected if things go wrong and you will have access to free dispute resolution services. A licence does not mean that ASIC endorses the company, financial product or advice or that you cannot incur a loss from the investment. ASIC grants a licence if a business shows it can meet basic standards such as training, compliance, insurance and dispute resolution. The business is responsible for maintaining these standards.

Commission
A fee paid to an adviser or salesperson as a result of selling a particular product. An upfront commission is based on the sale amount of the product. An ongoing commission is based on the balance of the account.

Financial services guide (FSG)
A guide that contains information about your financial adviser and the AFSL holder. It should explain the financial service offered, the fees charged and how the person or company providing the service will deal with complaints.

Product disclosure statement (PDS)
A document that contains information about a financial product's key features, fees, benefits and risks. A financial adviser must give you the PDS when they recommend that product to you.

Self managed super fund (SMSF)
A private super fund you can manage yourself. SMSFs are regulated by the Australian Taxation Office and can have one to four members. All members must be trustees to ensure they are fully involved in the decision-making of the fund.

Statement of advice (SOA)
A document that sets out the advice given to a consumer by their licensed financial planner or adviser. It must include the basis on which the advice is given, and information on any payments or benefits the adviser or licensee will receive.

See the glossary on **moneysmart.gov.au** for an explanation of other key terms and words.

Notes

We welcome your feedback

Please tell us what you think of our *Financial advice and you* booklet.

Please send your feedback to:

Email: feedback@moneysmart.gov.au

Post (no stamp required):

ASIC Publications
Feedback
Reply Paid 3451
GIPPSLAND MC VIC 3841

ASIC's MONEYSMART

ASIC's MoneySmart website has calculators, tools and tips to help you make smart choices about:

- Superannuation and retirement
- Investing
- Borrowing and credit
- Scams
- Budgeting and saving
- Insurance

moneysmart.gov.au

Call ASIC: **1300 300 630**

Disclaimer

Please note that this is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice.

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