Industry Super Network

Fact Sheet

Making super work for workers

RICE WARNER VALUE OF DIFFERENT MODELS OF FINANCIAL ADVICE

Fee for service (time based/hourly rate) financial advice, such as that provided by Industry Fund Financial Planning (IFFP), delivers up to 6 times better net value than commission-based advice according to a report from Rice Warner Actuaries.

The report also found that for the scenarios modelled commission based financial advice costs up to 13 times more than financial advice delivered on a fee for service basis.

The Rice Warner report findings suggest that consumers are better off paying for financial advice on a fee for service basis. Not only does financial advice cost less when clients pay fee for service, but the products recommended also cost less, resulting in greater net value of advice.

Financial advisers remunerated by commissions charge between 2 and 13 times more than financial advisers remunerated on a fee for service basis.

The report finds that fee for service advice delivers greater value because:

- Consumers are likely to pay more for financial advice if they pay by commission rather than on a fee for service, hourly basis; and
- Retail super funds and other financial products that pay commissions have higher average ongoing fees than products such as industry super funds which do not pay commissions.

Fee for service advice costs less, and delivers more value than commission based advice. These findings do not include historic investment out-performance of the industry super fund sector when compared to the retail fund sector. (According to Super Ratings, all ten of the top ten performing balanced super funds for the fives years to 31 December 2008 are industry super funds[1])

Summary of case study results

1. **Insurance strategy** – projected cost of commission based advice is 3.1 times the cost of advice charged by IFFP fee for service financial planner

2. **Co-contribution strategy** – net value of advice delivered by fee for service IFFP adviser was $10,522 versus $2,355 net value of advice delivered by a commission remunerated adviser

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[1] SR Balanced 50 Index

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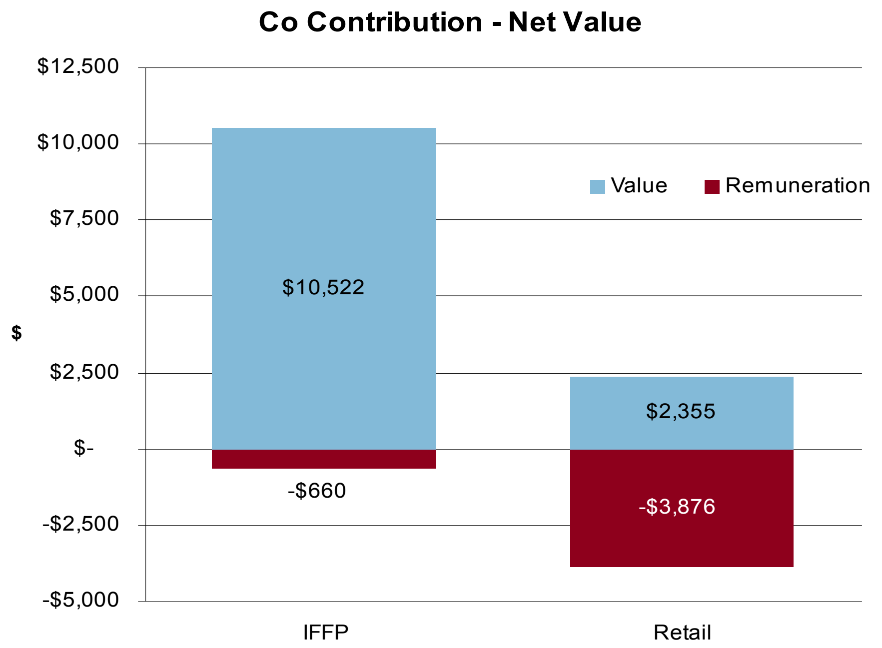

3. **Salary sacrifice** strategy – net value of the advice delivered by fee for service IFFP adviser was $56,679 versus $31,753 net value of advice delivered by a commission remunerated adviser

4. **Transition to retirement** strategy – net value delivered by fee for service IFFP adviser was $220,641 versus $118,728 net value of advice delivered by a commission remunerated adviser

5. **Retirement plan** – net value delivered by fee for service IFFP adviser was $70,961 versus $11,714 net value of advice delivered by a commission remunerated adviser.

Case Study	Net value delivered to client when advice remuneration is fee for service ($)	Net value delivered to client when advice remuneration is commission ($)	Ratio of net value delivered by fee for service to net value delivered by commission
Co-contribution	$10,522	$2,355	4.5
Salary sacrifice	$56,679	$31,753	1.8
Transition to retirement	$220,641	$118,728	1.8
Retirement plan	$70,961	$11,714	6

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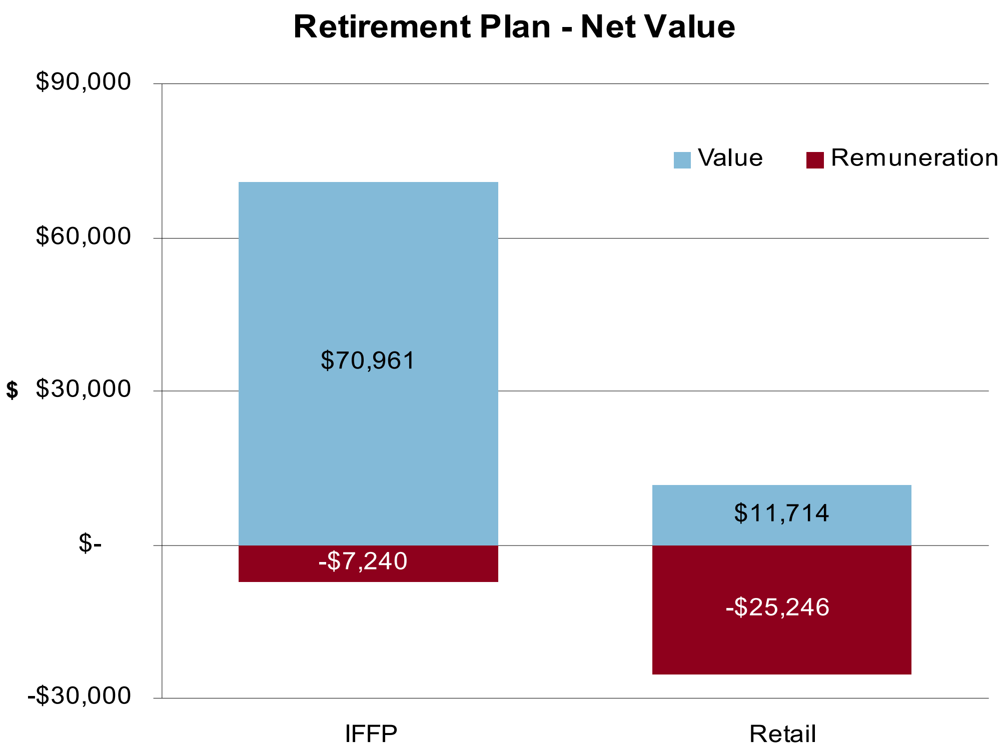

Financial advice must be in the 'best interests' of clients

The findings of this report reinforce the need for urgent change to the regulation of financial advice.

In the 2007 report by the Parliamentary Joint Committee on Corporations and Financial Services on the Structure and Operation of the Superannuation industry, it was noted that:

"…as long as disclosure requirements are met, it is legally permissible for an adviser to recommend a product privately knowing it is not the best option for the client."

Appropriate reform includes:

- The immediate abolition of sales commissions on superannuation; and
- The extension of the fiduciary obligation required of super fund trustees to act in the "best interests" of their clients to financial advisers.

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An obligation for a financial adviser to act in the 'best interests' of their client would require the adviser to scrupulously avoid any actual or perceived self-interest. A best interests obligation would require a financial adviser:

- To give advice which is in the client's best interests;
- To ensure that they do not allow their own interests or the interests of an associate to conflict with the client's interest;
- To receive fair time-based remuneration for the services provided to the client, which are concisely and clearly disclosed to the client and paid for by the client.

The only remuneration model which is consistent with financial advice given in a client's best interests is for a time based fee to be paid by the client to the adviser. Conflicted remuneration practices such as shelf or platform fees, trail commissions, up front commissions, ongoing adviser fees, adviser service fees and asset based adviser fees paid to financial advisers by product issuers ensure that there is always an element of sales in financial advice and are not consistent with a 'best interests' obligation.

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About the report

Industry Super Network (ISN) commissioned Rice Warner Actuaries, who had previously completed a report looking at the value of advice for the Financial Planning Association (FPA), to compare the value of commission remunerated advice against hourly rate fee for service advice for superannuation members. This comparison was undertaken by analysing five real life Industry Fund Financial Planning (IFFP) case studies.

Rice Warner used the Statement of Advice (SoA) output provided by IFFP to measure the costs to the fund member of receiving the advice and the value that would be obtained if the advice was followed. Rice Warner then used the same advice recommendations and modelled what value would have been obtained using the average retail super fund product costs and average retail super fund product-based ongoing commission (as determined by Rice Warner from industry analysis presented in the Superannuation Fees Report 2008 prepared for IFSA).

In assuming the same advice strategies from different advisers Rice Warner sought to compare:

- the IFFP advice costs with the average retail ongoing commission generated advice costs;
- the costs of the products recommended by IFFP with the average retail product costs and
- the net value of advice delivered via each advice remuneration model.

Industry Fund Financial Planning (IFFP) has pioneered the provision of financial planning and advice on a true fee-for-service basis since formation of the practice in 1999. IFFP planners do not accept commissions for recommending a particular fund or product and give advice based solely on members best interests. Over 30 industry and public sector super funds now contract IFFP to deliver a range of low cost planning information and education services to their members under the umbrella of the Industry Fund Services (IFS) Australian Financial Services licence.