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Investing & markets

Revealed - true price of advice

Charlotte Beugge, Daily Mail
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A RADICAL change takes place in the whole financial advice system today. Not only do we have the creation of a new type of adviser, but anyone seeking advice should know just how much they're paying for it, whether through commission or fees.

From now on if you seek financial advice then you'll be presented with a wodge of documents. These papers are a requirement of City watchdog the **Financial Services Authority**. The idea is to tell customers exactly what kind of advice they are being offered, what service is being offered and how much it will cost.

These changes are part of the most radical overhaul in the provision of financial advice for 17 years. When the Financial Services Act took effect in 1988, it created a two-tier system: the **independent financial adviser** (IFA) and the **tied agent**.

The IFA could sell any company's financial products and the tied agent could only advise and sell on their employer's products. This system was called polarisation.

All this changed in December when 'depolarisation' took place and a third type of adviser was created, the multi-tied. Such an adviser can sell products from a limited number of companies.

Now after a six-month transition period the rules are set in concrete. So from today, there are three types of adviser.

The idea in bringing in the multi-tie was to clear up past confusions where some advisers, although calling themselves IFAs, didn't really look at the whole market and instead sold from a panel of their favourite products, often ones which paid them the best commission.

There's also a massive change to how advisers are paid. There are two ways in which advisers are remunerated: fee based, where the client pays them for their services just as they would any other professional; or commission based, where they earn their money from companies in return for selling their products.

If you now go to an IFA, then you must be offered the choice to pay for its services on a fee basis, even if it also offers the commission option. Multi-ties and **tied agents** tend to work on a commission basis.

THE LETTERS

IF YOU go to see any type of financial adviser then you'll be given two key facts documents: the *initial disclosure document* and the *menu document.*

Ask an expert - Pensions

Will Army pension soldier on?

MY *husband receives a modest Army pension. Although we lived together during his 17 years in the Army, we married only after he left. If he predeceases me, will his pension die with him?* LD, Norwich

Lee Robertson, adviser at Investment Quorum, replies: The Army Pensions Assistance Unit, which is based in Glasgow, says this would depend on circumstances. It will provide a specific forecast if your husband gets in touch.

He can contact the Army Pensions Assistance Unit on 0141 224 3600. He will need to have to hand the exact dates of his period of service, the date of your marriage and details of any additional pension payments that have been made.

As a rough guide, it is likely that the maximum widow's pension would be one-third of the member's pension.

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Ask an expert - Pensions

55% tax on my pension?

I've heard that the government is to levy a 55% tax on some pension money over a certain amount in 2006. Is this correct? What are the figures? JS, Hull

Lee Robertson at IFA Investment Quorum replies: In very simple terms, you are correct in that there will be a 55% tax levied on any fund excess (above the lifetime allowance) post April 2006 on pension funds which vest (retire) and have funds in excess of the Lifetime Allowance of £1.5m (this figure will rise incrementally annually).

Care should be taken here by people who are already over or close to this limit as they will need to protect their accumulated funds from taxation before April 6th next year.

Ask an expert - Pensions

Has stake had its chips?

I started a stakeholder pension a few years ago to top up my main company scheme. My salary has just risen above £30,000. Can I continue to contribute to my stakeholder? If not, what are my options? I also pay AVCs through my company scheme. JH, Plymouth

Lee Robertson at IFA Investment Quorum replies: Unfortunately, you will be unable to continue paying into your Stakeholder if your earnings rise above the £30,000 threshold.

The option remains to make contributions to your occupational scheme AVC or possible a Free-Standing AVC (although care should be taken here as it is likely that the charges under the free-standing arrangement would be higher than the occupational scheme AVC).

Ask an expert - Pensions

Married or single?

I *have worked since leaving university at the age of 21. I have paid the full NI contribution as well as making contributions to a final-salary pension scheme. When I married at the age of 37 my husband and I continued to be taxed as a single person and pay the full NI contribution.*

I am now 53 and my husband is 54. I am eligible for a State pension at age 62 and my husband at age 65. When we retire will we each be able to claim a single-person's pension based on a full history of NI contributions or will we be counted as married and paid a couple's pension? ET, York

Lee Robertson, managing director of Investment Quorum, replies: This question has taxed us (pardon the pun) rather and we have discussed it with two tax advisers we know and trust. They concur with us, but none of us is 100% certain.

However, the consensus is that both individuals would get the full single-person's allowance in their own right (assuming full contribution history and no married woman's reduced rate payments were made). Upon retirement of the second person, an additional married element would become payable.

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Ask an expert - Pensions

Can I cash in my AVCs?

W*HAT constitutes private pensions savings as from April next year? I currently receive an army pension after 22 years service. After leaving the army I worked for the Royal Mail for more than 10 years during which time I paid additional voluntary contributions.*

I now work for the NHS. I reach my 60th birthday in December this year and have now received my pension forecast from Royal Mail (pensionable age 60). The current value of my AVCs with Equitable Life is quoted as £9,711.20.

Is this money classed as private pensions savings and would I be able to take it as a lump sum if I wait until next April? The amount quoted as additional pension from my AVCs on my forecast is £441 per year. I appreciate I should be able to get more if I shop around but even so, the lump sum option if available seems more attractive. JB, York

Petronella West, director at Investment Quorum, replies: It is our understanding that you will be able to take tax-free cash up to a maximum 25% of the fund from AVCs from 6 April 2006, however, the Post Office will need to amend its scheme rules to reflect this as it is not currently possible to take tax-free cash from an AVC.

It is likely that AVCs and free-standing AVCs will disappear as the old 'concurrency' rules change. From A-Day you will be able to top up your occupational scheme pension benefits through a personal pension plan.

Based on a fund of £9,711.20 you could potentially have access to £2,427.80 tax free and the rest of the fund could be used to buy an annuity using the open market option. This gives you the right to buy an annuity from any approved provider.

The idea is that by using the two, you'll know exactly what kind of service the adviser offers, how much it will cost and how the costs compare with those of others.

Both these documents follow the official lines set by the **FSA**. The initial disclosure document is to show you what the firm can do for you - the menu document shows you how much it costs. So, for example, the first question on the initial disclosure document is: 'Whose products do we offer?'

The answers the firm can choose from are: 'We offer products from the whole market'; 'We offer products only from a limited number of companies'; or 'We only offer products from a single group of companies'.

If the first is ticked the firm is an IFA; the second indicates a multi-tie and the third, a tied agent.

The document goes on to explain the level of service you can expect - ie, whether you will be offered advice or not. And it will also explain what kind of business they do, how they are regulated and where to complain if you are unhappy with the service.

The menu document explains how much you'll have to pay for their services. It will show how much commission they'd be paid if they sold you certain products - and how this compares with their peers. For an IFA, it will show how much you would pay in fees.

TOOLS: Find a financial adviser

THE PROBLEM WITH COMMISSION

ACCORDING to Mick McAteer of Which?, commission can be blamed for most of the **mis-selling** scandals of recent years. When your remuneration is dependent on how much you're paid for selling certain products, then it's not surprising that there's going to be a bias towards firms which pay the most commission.

So, naturally enough, if you want to make sure that the promise of big commission payments isn't skewing your adviser's recommendations, then you need to choose fee based advice and have the commission rebated.

But despite this, it's still an uphill task to get across the advantages of paying fees. Adviser Gill Cardy of Professional Partnerships does much of her work on a fee basis.

'It would be simpler and fairer if we did away with commission,' she says. 'But the big product providers will never agree to it. They see commission as a way to buy market share.'

This problem didn't exist before 1989. Before then, there were maximum levels of commission set by the then regulator, Lautro. But the Office of Fair Trading decided that the maximum commission agreement was uncompetitive. As a result, there's been a free-for-all on commission with firms offering ever more tempting payments to buy custom.

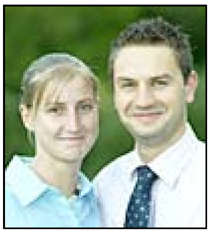
And what you might find particularly galling is that even if you were sold a rotten investment years ago by an adviser, who you may never have heard from since the day you handed over the money, he could still be getting paid commission by the firm.

DO YOU NEED ADVICE?

THERE IS no point in paying for something you don't need. If you know exactly what you want to invest in, then you don't have to pay someone £150 an hour to tell you what you already know. Instead, what you need is an adviser who will rebate most of the commission he's paid by the product provider to you.

Many firms offer this service - Hargreaves Lansdown, Bestinvest and Chelsea Financial Services for instance. Don't think you'll do better by going direct to the investment firm: strangely enough, this won't save you any money and you will pay the full charges that a commission-remunerated adviser would charge you. If you think you know what you want but need some advice, then you might be happy enough with a multi-tie adviser who will take commission.

But if you want the full bespoke advice, then find an IFA and pay fees. Typically, assume that the cost will be about £150 an hour - although you can usually agree a one-off fee for a particular piece of work.



BEN PACKMAN doesn't pay fees for advice. Instead, the financial analyst, pictured with girlfriend Anna Gray, makes all his own financial decisions using research from his adviser, Bestinvest, which also rebates the commission back to him.

He's just taken out this year's **Isa**, investing in Artemis UK Special Situations, and instead of immediately losing 5.25% of his investment in charges, Bestinvest rebates all but 0.25% of this to him. Says Ben, 24, from Kent: 'I'm confident enough to make my own investment choices so I don't want to pay anyone for advice I don't need. It makes sense for me to go for the kind of deal that rebates commission to me. If I've got the confidence to choose my own investments, then why should I have to pay through the nose for advice?'

SERENA STANDING is a fan of fee-based advice. She's a loyal client of Lee Robertson of Investment Quorum, whose advice she has sought for many years. He now looks after her portfolio and Serena, from London, has also introduced friends and family to him.

Serena, who not only has a company teaching businessmen behavioural techniques but also runs the Hanover Foundation, which helps troubled teenagers cope with life, says: 'I first met Lee when he worked for a High Street bank and I was very impressed with him, because he didn't try to sell me anything. So when he became an independent financial adviser, I followed him.

'I trust him completely, and because I pay him on a fee basis I know his advice is not skewed by how much commission he's paid. I do think it's a little naive to think that you can get something for nothing and to me, commission is just a hidden charge. Paying fees makes everything much clearer and fairer.'

Investment Quorum charges about £180 an hour for advice, although it will often quote an overall price for jobs.