



Counting the cost

Getting good financial advice is important, but what's a fair price to pay for it? *Which? Money* shines a light on the cost of advice

WHAT YOU'LL LEARN

■ How financial advisers set their fees for services ■ How new rules will affect the way you pay for financial advice ■ The fees you could expect to pay for different transactions

A good independent financial adviser (IFA) should help you make well-informed and clear financial decisions. But we're concerned that consumers often aren't getting a clear enough picture of advisers' fees before signing up for their services.

New *Which? Money* research has found a huge variation in IFA fees in the UK. The most expensive advisers charge many times more than the cheapest for the same task. As well as

regional differences and those based on levels of qualification, we also found considerable differences in the way advisers charge.

A complicated system

IFAs typically charge commission (paid to IFAs by both customers and product providers), fixed hourly fees, 'set menu' fees or a combination of two or more of these. Prices can be difficult to compare even when IFAs use the same charging structure (such as hourly fees only). For

example, one IFA told us he charges between £70 and £350 an hour depending on the complexity of the advice. When we spoke to a range of IFA trade bodies, no one was able to direct us towards a list of 'typical' IFA charges.

New regulations

Charges for financial advice should start to become slightly clearer next year, when new regulations are introduced. The changes, known as the 'Retail Distribution Review', will come into force in January 2013 and include an increase in the minimum qualification that financial advisers need to practice. The new rules will also draw a clearer distinction between



which? WORKS FOR YOU

Which? has been campaigning for improvements to the financial advice market and the removal of commission. The upcoming Retail Distribution Review (RDR) should deliver improvements for consumers.

From 2013, advisers must be qualified to at least level four of the Qualifications & Credit Framework (QCF), equivalent to the first year of an undergraduate degree. And advisers tied to a limited range of products, including those in banks, are likely to be called 'restricted' advisers.



Finally, a ban on commission set by product providers should help ensure that advisers recommend the best course of action for you, not the one that pays them the most commission.

But we think more can be done to improve charging transparency and to make comparing fees easier.

FREE CONSULTATION

We believe IFAs should offer a free, face-to-face initial consultation for every potential customer. This should mean that consumers will be able to make an informed decision about choosing an IFA, without ending up out of pocket.

STANDARD RATE GUIDE

We think it should be compulsory for IFAs to have a rate guide on their website, outlining key elements of their rate structure (for example, the hourly rate) and showing fees for a range of scenarios.

A standard rate guide, displayed online by every IFA, would help consumers compare prices and decide whether a particular IFA was offering value for money.

Which? will continue to lobby IFA trade bodies and the regulator to ensure that there's a better way for consumers to get to grips with the cost of financial advice.

independent advisers and those who can recommend only a limited range of products.

The most significant change will be a ban on commission for selling investment products. Currently, many advisers take commission up front and annually when they sell you an investment. In future, they will need to set their own fees based on the service they provide, not according to the product provider selected.

But, while these changes will help to eliminate 'commission bias' (where advisers recommend products that pay the most commission), they will not necessarily make it easier for customers to compare costs.

IFAs already have to offer their clients the choice of paying for advice either through fees or commission. But when we searched IFA websites and made calls to firms of advisers, to

obtain details of how much they might charge, we initially found it difficult to get a straight answer. We had to enlist a market research firm with access to an IFA panel to help us get the answers we were looking for (see table, below).

Current confusion

It's not just *Which? Money* that thinks IFA fees are complicated and unclear. At the end of last year, we carried out an online survey of Which? members who had recently used an IFA. Many of you said fees had not been explained clearly at the outset, while others said they did not know the percentage of commission they were paying.

One member said: 'I was given a piece of paper explaining the options for fees, but it wasn't really discussed in person.' Another said that 'it was not explained to me in terms that I could understand, and the documents I received are full of technical terms that I find confusing.'

One Which? member even described how the IFA 'did not mention fees or commission, but agreed to split fees with me when pressed.'

A clear rate guide

To provide a clearer picture of how much you could end up paying for financial advice, we sent a pricing survey to 200 IFAs around the country who would tell us about their charges.

The table below shows typical charges for four relatively common scenarios. It lists both the highest and lowest quotes we received, as well as the average around the country.

The results reveal just how widely total charges vary between different IFAs, even for the same services. For example, an IFA in Scotland

I was given a piece of paper explaining the options for fees, but it wasn't really discussed in person
One Which? member's experience

quoted £50 for the fairly straightforward transfer of a £5,000 lump sum into a stakeholder pension, equivalent to 1% of the amount we wanted to invest. But an IFA in the south-east quoted £2,500 for the same service; 50% of the amount we wanted to invest. This suggests that some IFAs may be unwilling to give advice on small investments and charge high fees to price you out of doing business with them.

Regional variations in fees are equally striking. It might be expected that IFAs in London and the south-east always charge more, owing to the higher wages and cost of living in these areas. But while this was true in some cases, we found some anomalies. IFAs in the north-west quoted the highest or joint-highest fees in two of our four scenarios. We were surprised by the significant differences in quoted prices.

These are just estimates given in a snapshot investigation. But our research does show that you need to do your homework and shop around to find a well-priced IFA, wherever you live in the UK.

Highly qualified?

As we reported in May 2011, there are dozens of financial advice qualifications. You should find an IFA with a higher-level qualification before committing to a consultation. The minimum qualification is QCF level three (broadly equivalent to an A-level); this will be increased to QCF level four in 2013.

If you need specialist advice, look for IFAs with qualifications at least equivalent to QCF level six (degree level), including chartered and certified financial planners, and the ISO 22222 qualification that Which? helped to develop.

Always ask an IFA about their qualifications in the free initial consultation. While it may be worth paying slightly more for an adviser who is qualified to a higher level, higher fees don't necessarily mean better qualifications.

We've listed eight other essential questions you should ask in the box, right, while websites such as www.findanadviser.org and www.financialplanning.org.uk can help you find an adviser that meets your needs.

The eight questions you need to ask

To ensure you pay a fair price for financial advice, and get a good service, you must get payment issues clear from the beginning. Some 89% of the IFAs we questioned said they offer a free initial consultation – this is when you should ask about any fees or charges that you don't understand.

Never feel that you have to go with the first IFA who offers you a free consultation. You have the right to attend free consultations with two, three or even more IFAs to find one you feel comfortable with.

Here are eight fee-related questions you should ask before choosing an IFA.

1 How will the fees be charged? For example, you could be charged an hourly rate, 'set menu' fees for certain projects, via commission, or a combination of these. If it's a combination, ask which proportion of payment applies to each type of fee.

2 Does the IFA receive commission set by product providers? If so, what plans does the practice have to bring its charging approach in line with the Retail Distribution Review (see p17)?

3 At what stage of the process will you be charged? Will you be asked to pay a lump sum, for example, or in instalments? If you're asked to pay in instalments, request as specific a timescale as possible.

4 How will you have to pay the fees: by cheque or bank transfer?

5 Are different fee options available to you for the service you require? For example, are you able to choose between paying by fixed fee or hourly fee? If different options are available, ask the IFA to explain the pros and cons of each one.

6 What level of qualification does the IFA have? Make sure this is held by the individual you will be dealing with, rather than someone else within the practice.

7 What service are you receiving for the fees/commission? Is it just the initial service or is any ongoing review involved? If an ongoing service is provided, how much will this cost every year and how will it be charged?

8 Will there be any ongoing commission or fees?

If an IFA tries to dodge these questions or implies that it's unreasonable to ask them, go elsewhere. A good IFA will be happy to answer all questions as fully as possible.

If an IFA says that services (beyond the initial consultation) are free, this is unlikely to be true. In this case, the IFA will almost always be taking their payment by commission, which may be deducted from your investments or paid as a procurement fee by the provider.

Being told to switch?

If you already have an IFA, be wary if they advise you to switch investments ahead of the changes to the regulations in 2013. With commission on new investments being banned next year, some IFAs may be trying to make as much money as possible out of product sales and transfers in the time that's left.

Any commission deals that are in place in January 2013 will remain in place beyond that date – and we've seen evidence to suggest that some advisers are trying to maximise their income before the new rules come into force.



An hourly rate or set fees? Always ask how you'll be charged

How do charges for independent financial advice differ?

The table below shows the highest and lowest quotes we were given, from a sample of 200 independent financial advisers around the

country, for four different financial scenarios. The average fee is shown along with the sample size of advisers that were able to carry

out the work required from each of the scenarios. Our research was carried out between 21 and 25 November 2011.

THE COST OF FINANCIAL ADVICE			
SERVICE PROVIDED	HIGHEST TOTAL FEE QUOTED	LOWEST TOTAL FEE QUOTED	AVERAGE TOTAL FEE QUOTED
The transfer of a single premium of £5,000 gross into a stakeholder pension	£2,500 (south-east)	£50 (Scotland)	£322 (of 156 IFAs)
The transfer of an investment of £10,680 into a stocks and shares Isa	£2,500 (south-east)	£106 (two: south-west and east of England)	£356 (of 192 IFAs)
Arranging a 20-year level-term assurance policy, with a sum assured of £100,000, for a 40-year-old male in good health	£1,500 (three: south-west, north-west and London)	£155 (south-east)	£519 (of 152 IFAs)
Arranging an income protection policy for a 30-year-old female in good health, earning £30,000 a year, with a retirement age of 65	£2,100 (north-west)	£120 (Scotland)	£596 (of 148 IFAs)