

Get the best financial advice

Paying for independent financial advice could be money well-invested. But watch out – if you pay the wrong way, it could cost you ££££s

IN BRIEF

In this report we help you to:

- get the best financial advice
- pay the lowest fees for that advice
- choose the best financial products.

Whether you want to protect yourself against the threat of unemployment and ill-health or to plan for your retirement, getting the best advice will help make the most of your money.

But we've found that too many people are not taking advice when it comes to making key decisions on pensions, savings and investments.

A Which? survey of 2,031 consumers found that one in four people would not seek pension advice at all. Equally worrying is the fact that only three in ten people have ever sought advice from a financial adviser other than their bank, meaning they are missing out on independent help and some of the best deals.



The difference in income between the best and worst retirement annuities could be almost £2,000 a year for a

65-year old man using his £150,000 pension fund to buy a guaranteed annuity with spouse's pension. That's an income of £9,752 with the best and £7,800 with one of the worst (a difference of 20%) for every year until death.

Which type of adviser?

There are currently three different types of financial adviser. 'Tied' and 'multi-tied' advisers will only offer you products from a limited number of providers, not the whole market so you could be missing out on the best deals.

HOW TO SAVE ON FINANCIAL ADVICE BY PAYING FEES UPFRONT

INSURANCE	Total cost with commission (£)	Total cost without commission (£)	Commission cost (£)	Typical IFA fee (£) ^a
£100,000 Life assurance ^b	57,655	53,331	4,324	250
£100,000 Term assurance ^c	2,712	2,011	701	250
SAVINGS AND INVESTMENTS	Total value after 10 years (£)	Total value after 10 years (£)	Commission cost (£)	Typical IFA fee (£) ^a
£200 a month Stocks and Shares Isa ^d	30,600	31,500	900	200
£50,000 With-profit bond	79,800 ^e	86,800	7,000	1,000

^a The fee you pay will vary according to where you live and the individual adviser. Note also that the fee is usually payable when the product is bought ^b Based on 60-year old-man with life expectancy of a further 21 years. Guaranteed premium ^c 40-year-old male ^d Based on growth rate of 7% per year. Annual renewal commission of 0.5% paid on both illustrations; initial commission only payable in with-commission example ^e Initial commission 9%



Which? believes that consumers deserve choice when buying financial products and should visit an independent financial adviser (see below). Tied advisers may sell you a suitable product from their own range, but simply cannot provide access to the whole market.

Why go independent?

If you're looking for help in more complex areas of financial planning, it pays to take independent financial advice. Whether it's a pension, protection product or inheritance tax planning, an independent financial adviser (IFA) should be able to give you the best advice and help you find the most suitable product at the best price.

70%

of consumers have never spoken to a financial adviser. They are missing out on the best deals

41%

would consider taking advice from friends and family when buying a new financial product

25%

would not seek advice from anyone when sorting out their pension

48%

would be most likely to seek mortgage advice from their bank

THROUGH THE MINEFIELD

John Stevens, builder, 65

Self-employed builder John Stevens says that finding the right pension was 'a minefield' for him and that independent advice had helped steer him through it.

John had been putting money into a number of Co-operative Insurance Services (CIS) with-profits funds for his retirement. He turned 65 on 1 January.

Last summer John arranged to see an independent financial adviser who was able to search the whole market

to find a suitable annuity for him. This also gave a spouse's pension for his wife, Kath, if John died.

As Kath had had a prior medical condition, the IFA found an annuity with an enhanced spouse's pension.

John said: 'We hadn't really thought about buying an annuity that would cover Kath if anything happened to me. Seeing an IFA helped us appreciate the benefits of finding a pension that would provide for Kath.'

No strings attached

Truly independent advisers have access to the whole market. They must also offer you the choice of paying by fee or commission (see table, left). Tied advisers don't have to offer a fee option.

Which? has been testing financial advisers for more than 20 years. We have consistently found that IFAs offer better advice than tied advisers such as banks and estate agents. Our research has also found that IFAs are far from faultless in their work, but following our seven steps on p23 will help you find the best advice.

Your rights

All advisers, whether they work for banks, building societies or independent

financial advisers, must be authorised by the Financial Services Authority (FSA). Services provided by UK-authorised advisers are covered by the Financial Ombudsman Service (FOS) should anything go wrong, and usually also by the Financial Services Compensation Scheme (FSCS).

If you take advice from an independent financial adviser or a tied adviser that you subsequently find was inappropriate (and if the adviser should have known this), you can complain to the Financial Ombudsman Service.

Had you bought the same product directly from the provider without taking financial advice, you wouldn't have this protection. ►►

FINANCIAL ADVISERS OF THE FUTURE

Here's what it means for you

The Financial Services Authority (FSA) wants to reform the financial services market to boost consumer confidence. Known as the Retail Distribution Review, two of the main aims are to improve the qualification levels of advisers and to split sales-led financial advice from advice-led services.

In the future, the current system of single-tied, multi-tied and whole-of-market advisers will be replaced.

The new system should mean consumers can identify a truly independent financial adviser knowing they have at least a minimum qualification level, have access to financial products from the whole market and will get a clear idea of the cost of the advice.

A consultation paper will be published in June 2009 and the changes are then due to be implemented by December 2012. Which? will be arguing strongly for the reforms to focus on the needs of consumers.

How much you can save by shopping around

	GOOD DEAL	BAD DEAL
£150,000 PENSION ANNUITY ^a	£9,752 How much Legal & General would pay in pension a year	£7,800 How much Axa would pay in pension each year
£100,000 LIFE INSURANCE ^b	£2,011 The amount Norwich Union will charge you over 20 years	£2,455 What Aegon Scottish Equitable will charge over 20 years
INCOME PROTECTION INSURANCE ^c	£7,308 The total cost of premiums with Unum over 20 years	£13,634 The total cost of premiums with HSBC Life (UK) over 20 years

^a Based on: level escalation, 10-year guarantee, spouse's pension of 50% ^b 40-year-old male non-smoker, guaranteed premium, zero commission
^c Based on a 40-year-old female non-smoking admin clerk, buying guaranteed-premium cover of £250 per week with a 26-week deferral period

Paying for financial advice

Don't be fooled into thinking high-street banks don't charge for their advice. Whilst you may not receive a bill for their services, bank charges are factored into the return you'll receive on investments and the premiums you'll pay for protection products. And because banks usually only recommend their own products, it's unlikely that you'll end up with the best product on the market.

Independent financial advisers must give you the choice between paying by fee or commission. While commission may be cheaper upfront, it is often payable for longer and, because it is taken

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www.which.co.uk/financialadvisers

from the investment or from your regular premiums, will reduce the return you receive.

We've given a guide on p20 to the fees you could expect to pay an IFA for a selection of products and advice. However, these will vary depending on where you live, the complexity and size of the products you're buying and the individual adviser's level of expertise. Don't be afraid to negotiate with your adviser over fees.

If you're buying long-term or high-value investments, you'll probably be better off paying a fee rather than commission, as the table on p20 shows. To make an informed decision, ask your adviser for two quotes – one with fees and one with commission.

The table on p20 shows how much return you might get from an investment depending on whether you pay for your financial advice by fee or commission. If you were buying a £50,000 with-profit bond you could earn an extra £6,000 if paying by fee.

Free help with your money

Free money guidance is being offered by telephone, online and in person in a two-year pilot scheme launched this spring.

The government-run scheme is starting in areas of north-east and north-west England and could be rolled out across the country. Unlike traditional financial advice, those providing guidance won't sell you any products. Their service will be aimed at helping you make effective decisions about your money, including budgeting, debt, retirement planning and understanding financial jargon.

Contacts

Financial Ombudsman Service (FOS) 0845 080 1800 www.financial-ombudsman.org.uk

Financial Services Authority (FSA) 0845 606 1234 www.fsa.gov.uk

Institute of Financial Planning 0117 945 2470 www.financialplanning.org.uk

The Personal Finance Society 020 7417 4473 www.findanadviser.org

Unbiased.co.uk www.unbiased.co.uk

WHICH? LOCAL

If you've visited an independent financial adviser and were impressed with the service and advice you received, why not recommend them on Which? Local? Register at www.which-local.co.uk and submit your review.

which? Local

Seven steps to getting financial advice

1 Ask yourself why

Before you look for an adviser, think about what type of advice you need. It could be pension advice or a general overhaul of your finances



2 Demand qualifications

Use an adviser with relevant qualifications if you need advice in a specialist area – visit www.which.co.uk/financialadvice for more



3 Find a specialist

Unbiased.co.uk offers a searchable database of IFAs. The Personal Finance Society also operates a website which allows you to search for a financial adviser by qualification and type of advice. If you're looking for 'big picture' help with your finances, consider a financial planner or coach. The Institute of Financial Planning has information about choosing a financial planner. For more, see Which? September 2008



4 Pick and choose

Phone at least three advisers. Ask them what qualifications they hold in the area you need advice in and how much they charge. Advisers should have at least three years' experience and must be FSA-authorized. The searchable FSA register shows if an adviser is properly authorised. Visit www.fsa.gov.uk/register



5 Prepare in advance

Before your meeting, ask your adviser to send you a copy of their fact-find questionnaire to fill in. This will help you focus on needs and priorities and save time and money



7

Make sure you understand

Once you've seen an adviser, get any recommendation in writing. If you have questions or you're worried that the product may be unsuitable or unaffordable, don't sign up. For plain-English descriptions of financial products, visit www.moneymadeclear.fsa.gov.uk



6 Go and get advice

Armed with your completed fact-find, arrange a meeting with your chosen IFA. The first meeting is often free

