Punter Southall
Aspire

The Value of Advice

A guide to what we do

At Punter Southall Aspire we've always extolled the virtue of financial advice

We recognise that the financial world is complicated and our aim is always to work closely with our clients to enable them to achieve their financial objectives.

But how do you actually put a value on advice?

Can it simply be shown as an increase in asset value driven by recommendations made by those who class themselves as experts, or is it more than that? We feel the real value comes from offering support and guidance, so that you can achieve four key life stage goals.

Protecting your family – Whilst this can be as simple as Life Assurance or other protection policies, it can be much more than that. It's also about making sure that your financial affairs are in order, so that you can be comfortable knowing that your family will be well looked after, even if the worst happens.

Happiness in retirement isn't just about having 'sufficient' income – it's about making sure it enables you to do all the things you'd like to. We don't just want to talk about how much your money is worth, but what it can do for you.

Transferring your Estate – Whilst we all recognise the merit of fair taxation, it's important that you take advantage of allowances offered to you by HMRC. These allowances are available when you are drawing income, but also affect your savings and investments and your overall estate upon your death. Our aim is to ensure you are able to pass as much of your estate down to your family as efficiently as possible, so that the biggest beneficiary isn't HMRC.

Peace of mind – All of these things are aimed at giving you peace of mind. There are many more important things to do as you go through life than to be worrying about your finances. Having a financial adviser working with you should ensure that the investment approach you use is correct, your money is suitably invested and your health is protected.

MOST IMPORTANTLY, YOUR ADVISER CAN UNDERSTAND YOUR CIRCUMSTANCES AND WORK WITH YOU TO MAKE SURE THAT YOU ULTIMATELY HAVE PEACE OF MIND KNOWING THAT YOUR MONEY IS WORKING FOR YOU.

The purpose of this document is to consider some of these matters in more detail, to highlight the value of advice.

Having said all of that, we do wish to draw your attention to some research produced by The International Longevity Centre, a charitable organisation focused on some of the biggest challenges facing Government and society in the context of demographic change. They produced a paper in July 2017 entitled 'The Value of Financial Advice'[1], which highlighted the average increase in the value of assets for those people who sought financial advice over those who didn't. The period chosen was from 2001-2007 and they then considered their asset value by 2012-14.

What impressed us with the report was that they examined the impact of financial advice on a group titled 'just getting by' as well as one titled 'affluent'. The 'affluent' group was formed of a wealthier subset of people who are also more likely to have degrees, be part of a couple, and be homeowners. The 'just getting by' group is formed of a less wealthy subset who are more likely to have lower levels of educational attainment, be single, divorced or widowed and be renting.

The report found that

- The '**affluent but advised**' accumulated on average **£12,363 (or 17%)** more in liquid financial assets than the affluent and non-advised group, and **£30,882 (or 16%)** more in pension wealth **(total £43,245)**
- The '**just getting by but advised**' accumulated on average **£14,036 (or 39%)** more in liquid financial assets than the just getting by but non-advised group, and **£25,859 (or 21%)** more in pension wealth **(total £39,895)**
- Finally, it was also noted that those who had received advice in the 2001-2007 period also had more pension income than their peers by 2012-14:

These findings highlight that good quality financial advice clearly has actual monetary value to it. To be honest, we have always recognised that, but it's nice when this is quantified by an Independent source.

Now, what we would like to consider is where we can offer a different type of value.

1 https://ilcuk.org.uk/the-value-of-financial-advice/

What is the purpose of money?

We recognise the importance of money and how wealth can help and support you and your family, but we're always keen to remind people that the most important thing about money is what is DOES for you, not necessarily what it is.

Money is an enabler. The reasons and motivations for how you use money are wide and varied, in most instances, but our clients don't own money so that they can simply make more. Most people wish to have money so that they can do the things they want to do.

When we speak to clients about their wealth, the language we tend to use will be around process rather than products, drive and desire rather than dividends, experiences rather than investments.

Of course, we also recognise the importance of making sure that we have a process in place to select the right products and investments to support your lifestyle and family (for example, some providers even have products specifically aimed at the younger members of your family, such as junior SIPPs etc., which we can help you investigate to determine the best option).

But, most importantly of all, the advice we offer is always a personal and bespoke proposition, as we get to know you and your family and ultimately understand what is important to you and what you are trying to achieve.

Whilst we have already highlighted an independent survey which shows the financial merit of working with a financial adviser, we do want to emphasise that the overriding driver within our business isn't to make you more money, but to enable you to do more things.

We realise that sounds like a contradiction in terms (as in most instances, doing more things requires more money), but it's a very important point. And to emphasise this, let's consider a case study

A simple case study – Introducing Violet

Violet has been with us for many years and we have managed all her investments, initially with her husband, but in the last five years, as a widow.

We were always aware of how important it was to have a relationship with both her and her husband and now our role is simply to look after Violet and consider her plans for her estate.

Violet has just turned 76, she is in fair health, but her days of travelling extensively are behind her. For Violet, she is comfortable in her garden and spending time with her family. The income she receives from her husband's company pension and the State means that she has little requirement for any further income from her investments and her biggest concern is Long Term Care.

As a result, when we had her latest review shortly after her 76th birthday, the conversation wasn't about increasing her wealth or discussing different product propositions, it was all about her quality of life and how she could support her two children and especially her five grandchildren who were all between the ages of 20 and 30. For her, the value of our advice was the difference we could make to her own circumstances and that of the people who mattered most to her.

The discussion was around gifting money to grandchildren, provision for Long Term Care, mitigation of Inheritance Tax and her own future income requirements.

The relationship we have with Violet is a life planning relationship. Our personal and individual advice affects what she does, not how much money she has or what products she owns. So the conversation we had wasn't about finding a cheaper proposition or a better performing investment, it was about improving the quality of life for her and her family. That was where the value lay.

Of course, that doesn't mean that financial products and investment performance don't matter, orthat we don't care about Tax mitigation and tax efficient investing – we will always do our best to obtain the best performance for your money (although investment performance cannot be guaranteed).

NEXT TO BEING SHOT AT AND MISSED, NOTHING IS QUITE AS SATISFYING AS AN INCOME TAX REFUND

– F J RAYMOND

Let's talk products and services

We've discussed important advice and services provided by a quality adviser, but there's clearly still a responsibility to ensure that three things occur:

1. Your financial products are competitive and fit for purposes
2. Your underlying investment approach suits your circumstances
3. Your adviser is aware of your personal tax status

It's still crucially important that these key factors are adhered to, thereby ensuring that the fundamentals are in place. Let's just consider these in turn.

Your financial plans

This can be anything from your life insurance products to your Personal Pension arrangement. It is not only important that each product offers value for money, but that it's also up to date and able to take advantage of any changes in legislation that occur all too frequently.

A good example of this is a Personal Pension. One of the biggest changes in pension legislation occurred in April 2015 (this was called Pension Freedoms; for more information, do have a look at our Guide) and if your Personal Pension was set up before 2015, it may be unable to take advantage of some of the new rules that are now available, such as the changes to death benefits and flexibility in retirement. In fact, it's probably likely that you've changed your television more times than you've changed your pension provision and when you consider how important your pension is to your financial well being, it does make you wonder why that is the case.

A good financial adviser will look closely at your products and make sure they're fit for purpose.

Underlying investments

This isn't about having the best performing funds or the best ISA, it's about you making sure that the investments suit your circumstances. It is crucially important to ensure that your underlying investments fit both your risk profile and your capacity for loss. For example, the very best performing funds may simply be due to the fact they are taking the highest amount of risk. There is a chance that this year's best performers are next year's worst.

No adviser will have a magic wand to be able to tell you which is best (frankly, if they did, they probably wouldn't be an adviser!). But a good adviser will have tools to ensure that the underlying funds fit your personal circumstances. They will be able to provide a proposition that will almost certainly have a mixture of assets, such as Shares and Property and Gilts, to ensure you reduce the level of risk that you need to take.

Once again, we'd encourage you to read our Guide which highlights the benefit of Multi Asset Investing.

The value of advice in relation to high-risk investments:

Professional advice can draw on behavioural science to encourage good savings and investments behaviour, which should eventually have a positive effect on your retirement income.

But the opposite is also true: the same behavioural science is being used to encourage people to invest in all sorts of products without necessarily taking advice. One example is London Capital & Finance, a microbond issuer with a colourful back-story, which went into administration in Feb 2018 to the horror of 14,000 investors[1].

We believe the majority of investors in this or similar high-risk products will have found their way there on their own as opposed to by taking the advice of a registered financial planner.

Obviously, behavioural stuff and nudges can be a good thing. But the simple act of stopping people making cataclysmic decisions based on material from firms who are using the same behavioural techniques to push their products is surely one example of the huge value of advice itself.

Don't risk making a costly mistake – always take professional advice.

1: https://www.londoncapitalandfinance.co.uk/faqs-07.02.19.pdf

Taxation

This is another area where mistakes can be costly and advice is crucial. Rather than go into specific matters concerning your own circumstances, consider a simple example:

Bob is retiring and wishes to draw £30,000 per annum from his Personal Pension as income. In Tax Year 18/19, he has a personal allowance of £11,850 with the rest of his income taxed at 20%. This means he would pay Income Tax of £3,630 in tax year 18/19.

However, if he talks to a Financial Adviser, they may suggest his income is taken from his ISA (which is able to pay any income free of Income Tax) or he could discuss using a portion of the Tax Free Cash from his pension to provide some income. This planning could enable Bob to draw his income free of all tax and that advice could save him over £300/month.

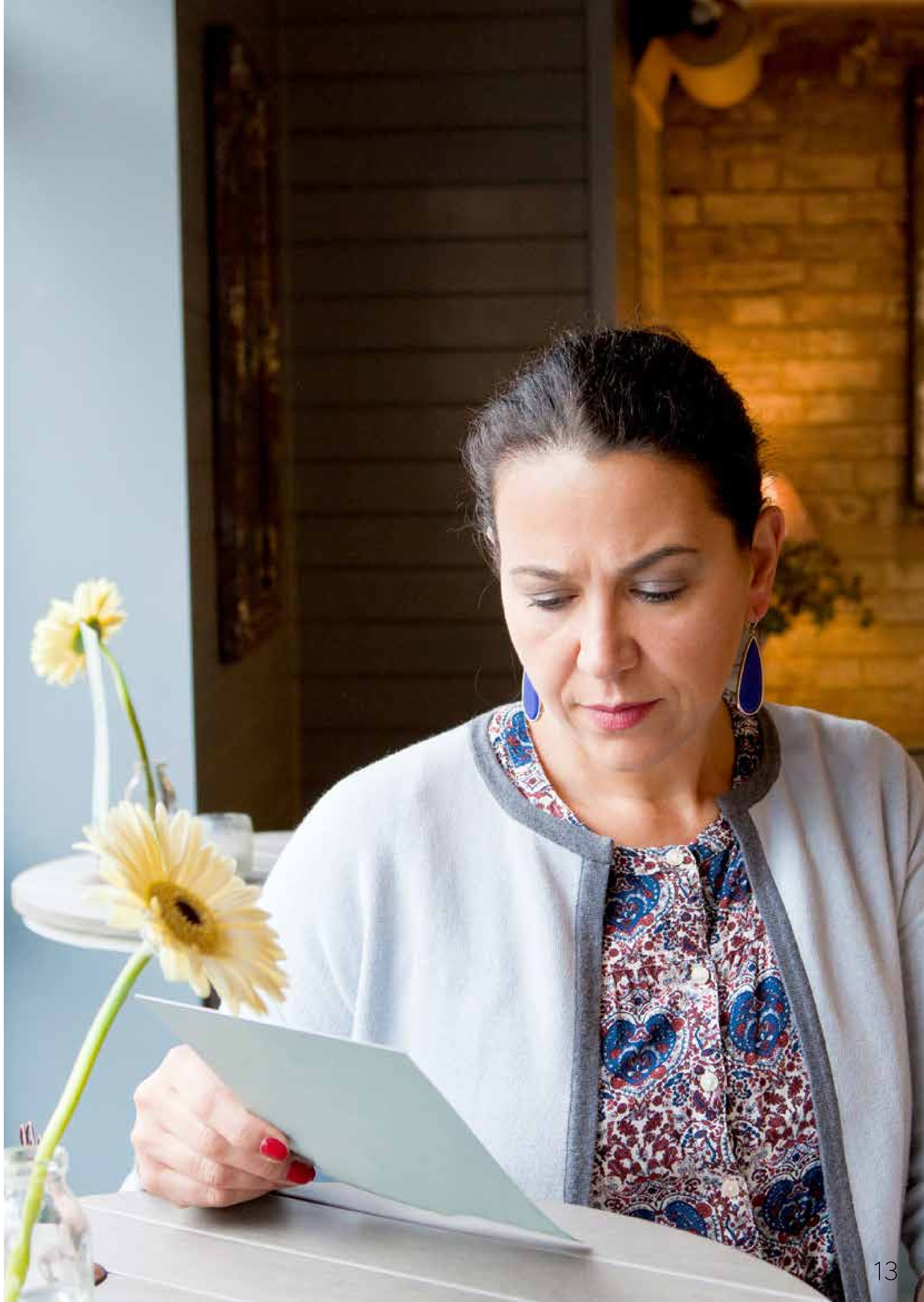
Naturally, that's a very simple example, but it highlights how advice is crucial in these matters. Now consider what could happen if mistakes are made with Inheritance Tax planning when the tax rate is 40% or issues occur with your Pension Life Time Allowance which has a potential 55% charge. These can be very costly errors that could run into many thousands of pounds.

There are also tax allowances that can save tax. Saving vehicles like Personal Pensions and ISAs are tax efficient, there are more specialist Investment products that offer generous tax relief and Inheritance Tax has many allowances that can be used to reduce the overall value of your Estate for IHT purposes.

All these factors are crucial to ensure your underlying assets support you in the best way possible. But the most important thing with all of this is the adviser. S/he is your Gatekeeper to these products and services and is there to support and protect you.

But its not just you they're supporting and protecting. Having an adviser means that those closest to you will also be protected and will benefit fully from your hard-earned savings and investments.

Let's consider how advice can help here.



Succession Planning

Whilst the main relationship we will have is with our client and his or her spouse or civil partner, we must also be aware of any family involvement as well as any family issues.

This became more of an issue with a key change in pension legislation back in 2015 which enabled owners of personal pension contracts and Income Drawdown plans to pass these contracts down to future generations free of IHT.

One of the key questions we get asked by clients is what happens to their money when they die. Basically, people want to know who gets what and when and also, how much does HMRC get (if anything)?

This is when an advice process becomes so important.

We are now not only considering the position of our client but also looking at how their death will affect children and grandchildren or even other family members or friends. And it becomes even more important when a second marriage occurs either through death or divorce.

Once again, the best way to highlight some of these issues is with a case study. In this instance, we will introduce Colin and Carol.

Carol and Colin had been clients for many years. Colin had a good size personal pension and it was this that was used to provide them with income in retirement. Colin and Carol also had two children.

Sadly, Colin died early on in his retirement and it had been agreed that Carol would receive his Personal Pension, so as to continue to meet her income requirements. The couple had also informally agreed that, upon her death, the money would be passed to their children.

Historically, a specialist Spousal Bypass Trust might have been considered, but after the Pension Legislation changes that came about in April 2015, the new Nominee Drawdown plan was already written under Trust, which would provide Carol with Tax Free Income. Therefore, it didn't seem to make sense to wrap this money in a different Trust as this would generate Trust Income Taxation.

Five years later, Carol re-married and a new nomination form was submitted with her new husband as the Nominee. At that time, he was informed by Carol that she would like this money to ultimately go to her children and her children were also added to her Nomination Form.

A few years later, Carol then died, and the money was paid to her new husband as her Dependent. And here now lies the problem.

This plan is now owned by her second husband. He has no legal obligation to nominate the children of Carol and Colin, only a moral one. If he wishes to nominate his own children from his own first marriage, he can. Whilst the Trustees of the plan can be approached by the children of Carol and Colin on his death to dispute this and claim that the money is theirs, it will only be paid to them at the Trustees' discretion.

Therefore, whilst there is the ability to transfer money within a Pension wrapper to a spouse on death or divorce, you can't dictate where these funds should then then be passed after that. To do this means you can't use the normal Discretionary Trust Pension wrapper and losing that means losing many other options.

As you can see, what seems like an excellent opportunity to pass money down to future generations can become complicated should any form of 'jigsaw' marriage be involved. It's in these instances that the value of advice becomes clear.

This client discussion is nothing about performance of funds, price of contracts and direct taxation implications, this is all about the emotion of the situation and the personal circumstances of the individuals. For many people, the value of advice is the ability to work with an adviser who understands their circumstances and recognises what is important to them.

Holistic financial advice is not about products and performance, it's about ensuring that your finances enable you to do all the things you want to do when you want to do them. It's ensuring that family are protected and you're able to offer support to further generations not only when you are alive but also on your death.

It's why the bulk of remuneration for most financial advisers is paid by the client, albeit through the financial products.

It is NOT paid by the Product Provider. Their relationship is with you, the client. A good adviser simply uses financial products to take advantage of certain tax circumstances or to benefit from efficient systems. However, whilst they will analyse the market to find the right proposition for you, their first discussion and only real concern is to you, the client.

So, how does this fit with Punter Southall Aspire?

After becoming part of Punter Southall Aspire in 2018, we're now in a position to offer a range of added-value services to our clients.

Punter Southall Aspire is a major investment and savings business that blends a strong customer-focused heritage with a modern and technology-led outlook.

Uniting pensions consultancy, workplace savings and individual financial advice, we work with employers, trustees and private clients through our regional UK offices to design and manage solutions that meet their unique needs

What does this mean for you, as a private client?

Firstly and most importantly, we can offer you the same face to face advice and support as we have done for so many years. Our primary focus as financial advisers is always on our clients, and ensuring we help you towards achieving your financial aims.

Our longevity in the Financial Services Industry allows us to understand the many legislative changes that have happened, how they may affect our clients and what solutions are available.

But we also recognise that clients require further support and provision of knowledge, so that they can feel more comfortable with the conversations they will have with their Adviser.

To help you with this we offer you exclusive access to Focus Hub, our comprehensive online library of information on all financial matters.

FocusHub includes Guides to the key changes to Personal Pensions that occurred under Pension Freedom rules and how they affect you. We also look at Succession Planning and what options are available when passing assets to future generations. Other Guides include IHT, Succession Planning and a Guide to DB Pension transfers.

Next Generation Thinking

Changing Financial Planning for Everyone

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