

Key facts – Paying for Advice

How do I pay for advice?

Commission or fees?

In the UK it has been the historic norm for advisers to be remunerated by the providers of the financial products they recommend to their clients via payment of commission.

The availability of commission from product providers has sometimes led to the impression that there is no charge to the individual for the advice they receive. However, all advice is paid for by either direct or indirect means sooner or later. For some of our clients, payment for advice via commission represents an easy way to spread the cost of advice, whilst others prefer to see us remunerated directly and without reference to any specific financial product.

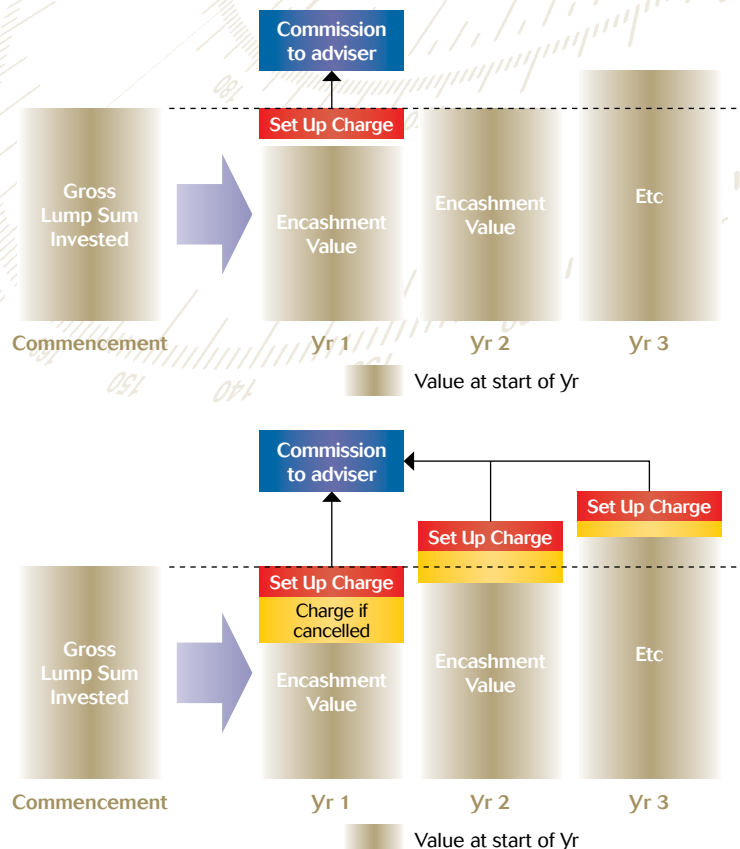
More recently it has become common for advisers to move away from commission based remuneration and instead opt for offering their services in return for the payment of agreed fees. However, this does not suit all clients.

Where does commission come from?

Distribution of financial products via independent financial advisers is a hugely efficient route to market for investment houses, life assurance and pension companies alike. They do not cover the cost of remunerating advisers in its entirety as they have their own business costs and profit expectations to meet.

The vast majority of payments made to advisers are recouped via the charges levied on the product recommended. These can be very overt and be taken on day one (“front end loaded”) or recouped year by year over the expected lifetime of the contract with additional penalties levied for early encashment.

Examples of lump sum investment charge structures



“Trail” commission

As well as payments generated at inception, some types of pensions and investments will generate, annually, a payment related to the size of the fund that you have accrued.

This recurring payment is primarily intended to help pay for the annual reviews and servicing of your financial affairs. It may cover the cost of the reviews that you wish to have in part or in full.

Your Alexander Forbes Wealth Management Consultant will agree with you the frequency and depth of your annual reviews. This will allow them to estimate the costs involved in such activity and agree an appropriate charging schedule with you.

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Is commission ethical?

Commission remains an appropriate and ethical method of paying for advice, provided that:

- *this is the route by which you would like to remunerate your Wealth Management Consultant*
- *the amount of remuneration is commensurate with the work undertaken*
- *it does not unduly influence the solution that is delivered*

Payment for advice via fees

If you choose to pay for advice via a fee agreement, invoices for that advice must be settled directly by you or your employer rather than through deductions from any investments that you subsequently make or contracts of assurance that you effect.

Payment by fees does not allow the spreading of the cost of advice in the same way that payment by commission can. However it does open up the possibility of achieving a true open architecture financial solution where both tax wrappers (such as Self Invested Personal Pension Plans) and the investments within them can be bought at “factory gate” prices and without any contractual lock-ins.

The cost of any components used in such a solution would be in addition to the cost of advice.

Time cost vs fixed cost

One of the most important parts of the relationships we have with our clients is trust. This is more important than ever when it comes to asking a client to pay directly for our advice.

We endeavor to build trust from day one of our relationships with clients by offering a “Scoping Document” which clearly states the advice that we are to provide and the anticipated cost of that advice.

Experience has shown that our clients do not generally like to commit to an “open chequebook” approach to our services so we tend to agree a fixed cost for a

defined range of advice and services that we have been requested to deliver. Whilst it rarely happens, it is not inconceivable that you maybe asked to pay additional fees should the scope of the advice requested broaden once the advice process commences.

Fees and recurring advice

It is common for our clients to pay a fee for initial, structural advice but allow the consultant to receive the recurring income (trail commission) from the assets that underpin their financial strategy.

The level of trail commission is much lower than initial commissions, it is not linked to any contractual penalties and can be redirected to a different adviser should you leave us as a client. Trail commission can be an efficient way of covering, in part or in full, the cost of annual pension or investment reviews.

Because the income stream is also related to the value of the portfolio, it aligns our interests with yours. The level of our future income depends on:

- *retaining you as client*
- *the value of your investments*

How do you measure the value of advice?

It can be difficult to measure the value of financial advice. If you are at the point of retirement and receiving immediate benefit from your capital it is easier to measure the tangible value of advice than if you are still at the stage of building capital up.

For those at earlier stages of their life, value may be derived from knowing that any worries regarding pensions, the effect on you and your family of an illness (or perhaps even your death) are now gone. Good advice can also result in reductions in your annual tax bill.

Of course, you will judge value in your own way. Dealing with people you can trust is likely to be an important factor in your judgement.

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