

Advice crisis of our own making

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The financial advice industry in Australia is at crisis point. Politicians urge people to seek financial advice, yet when somebody actually tries to do it, they quickly discover it's like wading through quicksand.

The barriers are everywhere, the costs are enormous and the outcome is usually far from satisfactory.

Take Ross, who wrote to me a couple of months ago.

He said: "I'm 72, with \$800,000 in superannuation with MLC. I want to implement a withdrawal and re-contribution strategy to reduce the death tax you keep warning about. I went to a financial adviser and they quoted \$6000 to handle it. Is that reasonable?"

At first glance, I thought it was outrageous. After all, it's not a complex strategy — it simply involves taking money out of super and putting it back in.

But when I spoke to an adviser friend, I was reminded of the real issue. It's not the adviser gouging the client, it's the regulations that have been imposed.

He explained: "We're required to go through an exhaustive 'know your client' process, which means a detailed fact-find covering every element of their financial life.

"Then we must produce a statement of advice that typically runs to 80 or 100 pages.

"Nobody is going to do that for

less than \$5000, however simple the underlying transaction may appear."

I pushed back: "But this is Ross. I know his age, his objectives and his strategy. It's just a withdrawal form and a contribution form."

The adviser was unmoved: "Doesn't matter. The law is the law. If I gave advice without producing all the required paperwork, I'd be struck off."

Hoping to find a workaround, I approached my accountant, but I quickly hit another wall.

He told me: "We can advise on tax, business structures, family

thousands of dollars to prepare. Then they compounded the problem by banning accountants from giving superannuation advice, depriving people of the professionals they already knew and trusted.

As if that wasn't enough, they went further and insisted that every adviser, regardless of age or experience, must return to university to obtain a new degree.

Many had been serving clients faithfully for decades.

One senior Australian Securities and Investments Commission official summed it up well: "It's like

Capital — firms that failed before CSLR even existed.

Yet today's advisers, who had nothing to do with those failures, are left carrying the financial burden.

This would be a crisis at any time, but it is especially dangerous now.

More than three million Australians are expected to retire in the next decade. Every one of them will need advice on superannuation, investments, aged care and estate planning.

Yet the number of licensed advisers is plummeting. Compliance costs are sky-high and the education requirements have driven out many of the best.

What we are left with is an advice gap.

People with substantial super balances, who desperately need help, are either priced out of professional advice or forced to go it alone. And mistakes in this area can be devastating.

The tragedy is that this is a crisis of our own making.

Ordinary Australians are being left stranded because governments — Labor and Liberal alike — were too focused on political posturing to think through the long-term consequences.

Unless reform happens soon, millions will retire without access to affordable advice, at precisely the moment they need it most.

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trusts and even whether a self-managed super fund might be suitable. But we are legally barred from giving superannuation advice. That area is completely off limits."

So Ross ended up going directly to MLC, who assisted him with the paperwork. But it should not have been that hard.

This story illustrates the wider mess.

The financial advice industry has been crippled by poor decisions from both sides of politics. Successive governments decided the best way to "protect" consumers was to bury advisers in red tape.

They mandated exhaustive statements of advice that most consumers never read, but which cost

telling me to redo my law degree from scratch."

The result was predictable. Thousands of experienced advisers walked away. The industry is now facing a shortage of historic proportions.

On top of that is the Compensation Scheme of Last Resort.

It ensures consumers still get paid when a financial firm collapses and can't meet an Australian Financial Complaints Authority determination.

Financial advisory firms are slugged about \$1200 per adviser a year to fund it.

The sting? Much of the bill comes from disasters like Dixon Advisory and United Global

Noel Whittaker is the author of *Wills, Death and Taxes Made Simple* and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions