What is Financial Advice?

A Moore Wealth Management Guide to Financial Planning

Financial advice is a broad term with many definitions and interpretations. Depending on the provider you choose, what you receive can vary greatly along with the outcomes. The need for a definitive process to guarantee the best solutions for consumers was the primary driver behind the introduction of the internationally recognised CERTIFIED FINANCIAL PLANNER™ designation in Ireland back in 2010.

Fewer independent advisers are operating in Ireland over the last 10 years as the marketplace shrinks and consolidates. The pillar banks, AIB Bank and Bank of Ireland are buying up Goodbody and Davy stock brokers respectively. The Canadian owned Irish Life (whose pensions and investments you are sold if you take your advice from the AIB Bank channel) are buying medium to large size brokerages to develop their assets under management.

The CERTIFIED FINANCIAL PLANNER™ designation is a standout in the marketplace for those who want all options evaluated for them. With an estimated 350 acting independently in Ireland they are highly qualified professionals who ensure you are getting the best advice available from all the options in a process that's accountable and transparent.

Financial Review Outcomes

When you decide you want independent advice what does this mean to you and how does this translate to a financial review?

In practical terms when reviewing any new client we analyse for the following items.

Life Cover Review

Firstly we look at what you need for protection covering the family, business and loans. There are methods to quantify this and one of the most accurate is to map out the impact of the death of either spouse on future cash flows for a defined period normally to where all children are through college and independent.

Once this figure is established we look at any existing policies to see if they fulfil this need. In the majority of cases, we find that clients were over-insured and they ended up saving money by cancelling policies. In other cases, we find clients are overpaying for cover because due to intense competition in the market place insurance companies are reducing premiums to drive business and increase market share.

For nearly five years one of the main insurers in Ireland has had a discount of 15% on life cover premiums. However, this discount has to be passed on by the broker which does not happen as much as it should as the commission paid is a function of the premium and discounts impact broker remuneration.

> **Takeaway #1** If you have taken out life cover in the last five years that was not quantified to fill a specific need or received a discount you should ask your adviser why.

Business Protection

Business protection has a similar methodology in that you quantify the impact of the death of the business owner and insure accordingly. But what you need to understand is that if the company pays the premium in the event of a claim, the policy proceeds are paid into the business and not directly to your family.

This type of cover is suitable for shareholder protection where a business has more than one owner and the proceeds are used to buy back shares under agreement. It is not suitable where the intention is for the proceeds to go directly to your family as they will have to extract the funds from the company and pay the same taxes as drawing a salary. This is a very common problem.

> **Takeaway #2** If you were told to have your business pay for life cover to be more tax-efficient, are you aware the policy proceeds are going to the company and are subject to normal taxation on extraction?

Living Benefits Review

There should be a clear distinction between life cover (death protection) and living benefits which are income protection and serious illness cover.

Without a doubt, income protection is the most important cover you can have. Your ability to earn is one of your most valuable unrecognised assets and a culmination of years of hard work, study and determination on your part and needs to be covered.

These policies are designed to pay out if you cannot work in your occupation. With 51% of all claims for this cover relating to psychological and orthopaedic issues in a profession that is high pressure with you on your feet all day, there would need to be a strong case for not having this.

Serious illness is different to income protection in that it pays out a lump sum on diagnosis, typically heart attack, cancer and stroke and works well in tandem with income protection if you are going to be out for a long time or unable to work again.

> **Takeaway #3** Medical advances mean you are more likely to survive a major illness than die, but what will you do if you are unable to return to work and earn a living?

Pension Review

This section has to have a performance and cost review accompanied by full cashflow modelling that shows the future projections of your pension and the drawdown scenarios when you reach retirement age.

Your pension is a supremely tax-efficient tool for wealth accumulation and cash extraction from a business. It is one asset in your retirement armoury and needs to be overlayed with your other assets and income streams to give you a model of retirement and how best to draw cash.

> **Takeaway #4** Make sure your pension is projected out to the end of life, using full cashflow modelling mapping various drawdown scenarios and matches the best in class pensions in the market.

Investments and Savings Review

This should look at how you are investing personally held funds and determining if you are optimising the most tax-efficient environment for them.

Most personally held investments in Ireland suffer from a 1% entry levy, 1-2% annual management charge and 41% tax on gains. This is a tough regime under which to make returns. Options do exist for clients to invest under Capital Gains Tax which removes the 1% entry fee, reduces the annual charge and the tax on gains is at 33% after your annual CGT exemption of €1,270.

This is also the section of the report that ties into inheritance tax planning and it will be quantified if you should be accumulating assets in your children's names to take advantage of the small gift exemption which allows any one person to gift another €3,000 per annum with no tax implications. This has no impact on the current lifetime parent/child threshold of €335,000.

> **Takeaway #5** Determine the best way to accumulate personally held assets and identify the appropriate tax-efficient model for holding them.

Inheritance Tax Planning

An often overlooked but key piece of financial planning. This is not on most people's radar but when you realise €335,000 per child is the inheritance tax threshold, the problem comes into focus.

Only by calculating the combined value of your home, business, pension and investment assets do you realise that everything above €670,000 (two children), €1,005,000 (three children) etc is going to be taxed at 33% that the problem becomes stark and quantifiable.

Many do not realise this is an issue that can be solved. There are innovative solutions in the marketplace for this including one of the more groundbreaking policies ever launched in Ireland.

This policy insures both spouses for the inheritance tax liability. On death, the cover amount is received by the estate tax-free for settlement of the bill thus leaving all the assets in the children's names. The remarkable part of this policy is that after 16 years if you have not used the policy you are guaranteed that 70% of the premiums paid are returned to you. This is not conditional on anything other than you deciding you want to end the policy.

This life cover can protect your family from a substantial tax bill in the medium term while giving you time to plan for alternative ways to reduce the liability.

> **Takeaway #6** A comprehensive review will identify if an inheritance tax liability is an issue for you. Seek out a CERTIFIED FINANCIAL PLANNER™ for guidance.

Cashflow Modelling

Utilising cashflow modelling software is the future of financial planning and no review is fully complete without this. This enables a graphical representation of your financial future based on your current set-up projected out to end-of-life, taking into account asset growth, savings contributions and taxation.

Any changes that we recommend are fed through the software to show you the long-term impact of the actions you take and to give you the certainty that the action you are taking is in your best interest.

Cashflow modelling has changed the rules of the game and you need to be on the same pitch as those benefiting from this service to fully realise your financial goals.

> **Takeaway #7** If your adviser is not running cash flow modelling for you, they are not providing you with the most in-demand service in financial services today and you need to ask why.

The advice market is changing and this is natural. The larger players and banks are further developing one size fits all strategies and campaigns. You don't have to fit into one of these templates. **CERTIFIED FINANCIAL PLANNERS™** are maintaining their independence and delivering world-class solutions to clients

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WEALTH MANAGEMENT

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