

Five things you need to know or do when seeking financial advice: Part 2

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In the previous article, I discussed the process of finding a financial adviser.¹ Once you have found your financial adviser, it's important to understand the process they will take you through, which is very much prescribed by the industry's regulator, the Financial Conduct Authority (FCA).

Most will start with a 'get to know you' meeting, where you can see if the adviser is going to be able to help, they'll provide you with their Terms of Business, their privacy document, and their contact details. This can be face to face or just as easily by phone and email.

Firstly, it is important to know and understand the advice process if you are going to embark on it. The most important thing to understand is that the adviser is

going to need to know all about you, your finances, your goals, your attitude to risk, what policies you already have. This is all recorded in a Factfind and will form the basis of any advice made.

The second thing is that advisers actually advise on the course of action you should take. Now, that might sound a strange and an obvious thing to state, but think about the dealings you may have had with other professional bodies. Often frustratingly remarked upon is that these other professionals seem to limit their services to highlighting the probable outcomes, leaving you to decide on the most appropriate course of action to take. With a financial adviser, you can ask them, 'well what should I do?' In fact, you don't even need to ask, as they will make it clear.

The third thing to know is these initial meetings are likely to be at no cost to you and without obligation. Once the details are collected, research conducted, the resulting advice will be presented in the form of a report or suitability letter. Once

you understand and accept the advice being given, it's time to decide whether you want to go ahead or not. It's usually from here that your obligation starts.

The fourth thing you might not know is that advisers get paid in different ways dependent on what they are doing for you. Although cost will differ from one adviser company to another, they tend to follow the same sort of format with the levels needing to be justified under the new Consumer Duty requirements for fair and value pricing. Whilst fees can be charged in all areas and adviser firms might adopt their own pricing strategy, the majority tend to follow a similar tack.

For protection or insurance products, the adviser is paid a commission dependent on the business being placed. This is paid by the provider and is taken from their profits of the business. For the adviser, this commission is at risk if the client cancels in the early years. Therefore, some adviser firms will protect against this by quoting a minimum fee for their advice.



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For pension, savings, and investment advice, it is quite different. Here the adviser will charge a fee for the work they do. It comes in two forms, an Initial fee for the research, setting up, and advice given, followed by a fee for the optional ongoing review service for your investment. It can be in the form of an hourly rate, like solicitors, or more commonly as a percentage of what is being invested. This fee can be paid separately, however again, the popular and convenient choice is usually having it taken from the actual investment being placed. For example, with a fee of 3%, if you invested £50,000, the fee would be £1500 and once taken from the investment would leave £48,500 invested. All you need to think is, any potential growth in the initial months is going to recoup the initial fees, before hopefully growing further.

You should refer to the firm's Terms of Business or Client Agreement to fully understand the fee structure on offer.

The fifth is that advisers will follow a general hierarchy of financial needs, commonly accepted in the industry as the correct order in which to prioritise the different elements of financial planning. To you and me, that means doing the most important things first. It's no good your family relying on a few thousand pounds in your ISA if the worst was to happen to you.

As you journey through your working life, aiming for those personal dreams and

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aspirations, it's likely there will be some bumps in the road. Depending on their severity, these bumps could alter, delay or even shatter even the most conservative objectives. So, the best way to deal with this is by putting a plan or strategy together with the help of your adviser:

- **Emergency Fund:** A key part to any financial strategy is the fall-back option, the emergency fund.
- **Protection:** Covering things like mortgages and business loans and then moving onto family protection.
- **Protection of Income:** Once you've covered the debt, it's time to think about your income. Protecting this could be seen as vital, as this is what all dreams and plans rely on.
- **Retirement Planning:** Pension provision. This may consist of an NHS pension, or a private pension or a mix of both.

→ **Savings & Investments:** Once you get to this point, it's all about making what spare money you have work for you. In your working years, this might involve a search for growth or accumulation, however once close to or in retirement, your strategy might shift towards preservation of capital.

→ **Inheritance Tax Planning:** Having spent your whole lives working for the benefit of your family, at some point you may consider it wise to make sure the 'Taxman' does not become the greater beneficiary of your estate.

→ For further information contact MediDen on 01772 785657 or visit www.mediden.co.uk.

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Reference

1. McGrath S. Six things you need to know or do when seeking financial advice: Part 1. *BDJ In Pract* 2024; **37**: 387.

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