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BRIAN MELLOR

FINANCIAL SERVICES LTD

Advice matters

Do you have the time to keep fully up to speed with everything that's going on?

With a burgeoning choice of products on the market, and considering the busy lives we all lead, it can be difficult to find the time to keep fully up to speed with everything that's going on – especially when you consider that financial products are unlikely to remain the same throughout your lifetime. Obtaining professional financial advice enables you to discuss your objectives, understand which products are available and identify which will best suit your investment needs.

KEEPING A REGULAR CHECK ON FINANCIAL PLANS

Lifestyles change as time passes, and it's important to keep a regular check on our financial plans. It is likely that the balance of investments in your portfolio will need to evolve, not only in line with changing market conditions but also with factors such as your investment goals, your personal circumstances and perhaps most notably your age. Obtaining professional financial advice will ensure that your plans remain on track, especially when the time comes to retire.

LOSING OUT ON THOUSANDS OF POUNDS

However, a worrying number of people aged over 55 are not planning to take financial advice when they retire. This means people risk losing out on thousands of pounds over the course of their retirement, leaving the UK on the cusp of a 'mis-buying' crisis, according to research from LV=.

INCREASE THE TAKE UP OF ADVICE

It is a year since the final Financial Advice Market Review (FAMR) report published 28 recommendations to help make financial advice more accessible and affordable for people. While progress is being made to increase the take up of advice, it is currently worryingly low. Six in ten (61%) approaching retirement still say they don't plan on using a professional adviser, and half (52%) think they can make the right decisions without advice.

DIFFERENCE BETWEEN GUIDANCE AND ADVICE

One of the reasons for not taking financial advice appears to be a lack of understanding of what it offers, with a third (33%) not certain they know the difference between guidance and advice, and just one in five (22%) thinking it is good value

for money. Other reasons given include: people relying on their own research (23%), not thinking they have enough money to make it worthwhile (22%), and advice being too expensive (15%).

BETTER PROMOTION OF THE REFORMS

This demonstrates an urgent need for government, regulators and industry to do more to show the value of advice, including better promotion of the FAMR reforms. Two of the recommendations from the report came into effect in April: the Pension Advice Allowance and the tax-break for employer arranged advice^[1]. However, knowledge of them is low. Two thirds (68%) of over-55s are completely unaware of the Pension Advice Allowance, and eight in ten (80%) don't know about the tax break for employer arranged advice.

FLEXIBILITY OVER RETIREMENT OPTIONS

The pension freedoms have given welcome flexibility over retirement options, but this has also created greater complexity; without financial advice, people are at risk of making the wrong decision. The FAMR recommendations help make advice more suitable for the mass market, but much more needs to be done to promote the value of advice, as those who do use an adviser often get more from their money^[2]. ■

Source data:

LV= research among 1,008 UK adults aged 55+ who are retired or plan to do so within 10 years, conducted online by Opinium from 16–21 February 2017.

[1] The Pension Advice Allowance will allow people to take up to £1,500 from their pension pot tax-free to pay for advice. The tax-break for employer arranged advice will enable advice up the value of

£500 arranged by an employer isn't classed as a taxable benefit.

[2] LV= research has previously shown that people who buy an annuity and don't take advice or shop around could lose out on nearly £1 billion over their retirements. According to ONS 2012 data, 600,000 people retire in the UK each year. ABI data shows that in Q4 2015, 51% of retirement income products purchased were annuities (21,200 annuities compared to 19,700 drawdown products). 51% of 600,000 is 306,000. 80% of people shopping around for an annuity could have got a better deal (source: FCA – February 2014). 80% of 306,000 people who buy an annuity equates to 244,800 a year. The difference between the best and worst annuity quote for a healthy 60-year-old is £192 (analysis of MAS annuity tables November 2016). 244,800 x £192 equals £47 million a year. £47 million x 20 years (assumed life expectancy after retirement) equals £940 million over 20 years for one year's worth of retirees.

MAKE THE MOST OF YOUR HARD-EARNED SAVINGS

The poor understanding of financial advice is particularly worrying at a time when people are faced with more complex decisions about retirement than ever before. Taking professional financial advice is vital to ensure you are equipped to make the most of your hard-earned savings and receive the income you need in retirement. If you are approaching retirement and would like to discuss your options, don't leave it to chance – please speak to us.