National Information Centre on
Retirement Investments Inc.

A Guide to the Financial Planning Process

www.nicri.org.au

moneymap.nicri.org.au

INFORMATION CURRENT FROM 12/10/06

The National Information Centre on Retirement Investments Inc.

The National Information Centre on Retirement Investments Inc (NICRI) is a free, independent, confidential service that aims to improve the quality of investment information provided to individuals who are investing for retirement or facing redundancy. NICRI works at arms length from both government and the finance industry to provide a completely unbiased source of information to the public. It does not give or imply financial advice. Funding for this consumer service is provided by the Department of Families, Community Services & Indigenous Affairs.

NICRI's service to the public includes:

- a range of publications covering investment principles, financial planning and popular investment products
- a tollfree national information telephone line
- speakers at seminars/meetings

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Retirement Planning

If you are about to retire you are no doubt being confronted with a lot of new information and some difficult financial decisions. You may wish to seek advice from a financial planner or design your own plan.

If you decide to develop your own financial plan you should start by sorting your money according to your needs and selecting appropriate investments to meet those needs. Obviously, your plan will differ from everyone else's as it will depend on your current financial position and your future objectives. NICRI has developed an online interactive tool called 'moneymap' to assist consumers with financial planning issues. It can be found at *moneymap.nicri.org.au* or via the NICRI website.

There are several areas you will need to consider.

Your current financial position

- Assess what assets you own - home, contents, car etc - their maket value and their replacement (insurance) value.
- Assess how much your current investments- money in accounts, shares, managed investments, investment property etc - are worth.
- Assess your liabilities - how much you owe.
- Find out what retirement benefits you will receive when you finish work, including the current value of any existing superannuation or rollovers.

Your lifestyle aims and objectives

Consider the things you want to achieve in your retirement and your desired financial situation in 5, 10 or even 20 years. If you intend to travel you will need to plan for these expenses.

Once you have assessed your current financial situation you can start to develop a financial plan based on your lifestyle aims and objectives.

Developing Your Plan

Your financial plan should consist of three parts.

Part A. Regular income

This is the most important part of your financial plan. Estimate how much regular income you expect to require, taking into account regular expenses such as food, rent, clothing, telephone bills, rates, insurance, electricity, heating as well as mortgage or other debt repayments. Consider using your savings to minimise expenses by paying off or reducing debts. This will effectively reduce the amount of regular income required.

Money used to meet these expenses should come from regular secure sources such as your spouse's wage, from investments, income stream products or from social security or veterans' affairs benefits.

There are several income stream products which may be suitable to generate income. You may consider using *allocated annuities*, *allocated pensions*, market linked income streams (known as term allocated pensions) or i*mmediate annuities*. Investment products which may also be suitable to generate income include fixed interest investments, term deposits, shares, property or *managed investments*. For further information refer to leaflets in the NICRI product series.

Part B. Cash reserve

You should keep money for unforeseen expenses easily accessible. The amount of money you require will depend on your circumstances. You are the best person to estimate the amount of money you may need for unexpected expenses.

Part C. Capital growth

If you have money left over after providing for living expenses and reserves you should consider setting aside some money for long term investment. This money should be placed in investments that allow it to grow. It is essential that any investments you make are appropriate for you. The level of acceptable *risk*, taxation, social security implications and potential to achieve your goals should all be taken into account.

Investing Wisely

Diversify your investments

This means spreading your money across a range of investments. You should avoid putting all your money into one type of investment.

Match investments and timeframe

The types of investments you choose should depend on the length of time you plan to invest. If you are prepared to invest your money for the long term, e.g. 10 years, then you should be able to accept short term unrealised losses in exchange for expected greater long term returns.

Balance risk and return

You need to work out how much risk you are prepared to take. Generally, the higher the expected return the higher the risk. Ask questions until you understand the risks involved. Some investments may be volatile in the short term but provide sound returns over the longer term.

For assistance with your risk profile and needs and objectives refer to 'moneymap'.

Taxation

Tax planning is an important issue for investors. Investments should be purchased to suit individual needs and objectives and not for any perceived taxation benefit only.

Social security and Veterans' Affairs

You may be eligible for assistance from the Government. You should check with the Centrelink Financial Information Service (FIS) or the Department of Veterans' Affairs local office for more information. The publication 'A Guide to Australian Government Payments' gives details of asset and income limits for payment eligibility.

Checklist of Financial Planning Considerations

- List the assets and liabilities you currently have.
- Consider paying off any debts you may have.
- Calculate the amount of income you need for basic living expenses. (see NICRI's *Income & Expenditure Sheet*)
- Decide how you are going to provide this income.
- Plan for travel and other lifestyle expenses.
- Ensure you have a reserve of money in case of unforeseen circumstances.
- Place cash reserves into low risk investments.
- Excess money may be placed in growth investments, as appropriate.

For assistance with the above tasks, useful tools such as a budget sheet and calculators are available at moneymap.nicri.org.au

Not all steps may be necessary but should still be considered.

Legal Requirements

Licensed providers of financial advice are required to have a reasonable basis for making their recommendations. Recommendations must be based on appropriate consideration and investigation of the investor's needs, objectives and financial situation.

Disclosure

Advisers must fully disclose to investors particulars of any fees and/or *commissions* they or their associates will or may receive, whether in cash or other incentives. Furthermore they must disclose any other interest that is capable of influencing their recommendations.

Investors should be provided with sufficient information to enable them to fully identify who they are dealing with, the relationships, if any, that may exist between the adviser and the product provider as well as all fees, charges and commissions the investor will incur in accepting the adviser's recommendations.

Good Advice Regulations

In addition to the above legal issues the Good Advice Regulations require licensed providers of financial advice to retail investors to:

- give to every investor who agrees to receive investment advice a *Financial Services Guide* (FSG) at the earliest possible opportunity (see page 9 Financial Services Guide)
- have in place internal complaints-handling procedures (see page 33 Complaints Resolution)
- be a member of an external complaints resolution scheme approved by the Australian Securities and Investments Commission (ASIC) (see page 33 Complaints Resolution)
- give a clear warning to an investor when the investor has not given relevant personal information. The warning must:
  - state that the licensee has not been able to undertake a comprehensive financial needs analysis for the investor;
  - set out the limitations on the appropriateness of the recommendation as a result of the lack of relevant information; and
  - state that the investor should consider whether the recommendation is appropriate to their particular investment needs, objectives and financial circumstances.
- give a clear warning when they provide *general securities advice* to an investor. The warning must state that:
  - in preparing the advice, the licensee did not take into account the investor's needs, objectives or financial situation; and
  - before making an investment decision on the basis of the general securities advice, the investor should consider the appropriateness of the advice to their individual needs, objectives and financial circumstances.

Financial Services Guide (FSG)

A FSG is designed to promote investor protection by ensuring investors are provided with sufficient information about the costs, services and alliances of a licensed advice provider.

A FSG should answer the following questions:

- Who is my adviser?
- Who will be responsible for the advice given to me?
- What advisory services are available to me?
- How will I pay for the service?
- How much commission/fees do I pay?
- Is there any room for negotiation on fees?
- How are the fees/commissions calculated and deducted?

- Do I get information about actual commissions and other benefits my adviser receives from making the recommendations? and
- Who can I complain to if I have a problem about the advisory service?

ASIC consider it is best practice for advisers to provide an investor with a FSG before providing any investment advisory services or entering into formal arrangements to obtain such services. Investors should take sufficient time to read and understand the information in the FSG before deciding whether to accept or proceed with an adviser's recommendations.

Selecting a Financial Planner

Investing for retirement will require you to make some of the most important financial decisions of your life. There are many investments available for purchase. Not all will be suitable for your particular situation.

Financial planners are people who may be able to help you choose the right investments to achieve your financial goals.

Selecting a planner is an important decision. You should choose a planner you feel you can work with and can trust. Remember that financial planners earn their living by giving advice and selling products. How they receive payment will vary and may be from:

- commissions paid by the companies providing investments from the *entry* or *management fees* you pay, and/or
- fees charged directly to you
  - on an hourly basis for service
  - as a percentage of your investments.

For further details on fees see page 27

Checklist to Use When Choosing a Financial Planner

Financial planners are listed in the Yellow Pages telephone directory. You may choose one from there or ask people you know for recommendations.

You may care to check if the FSG given to you has answered the following questions and, if not, seek clarification from your prospective financial adviser.

1. Does your organisation have at least five years experience in financial planning?
2. Does your organisation hold an Australian Financial Services (AFS) Licence or are you or your organisation an authorised representative of a licensee?
3. Does your licence restrict the range of investments you can recommend?
4. Is your organisation free of any obligation to place funds with a particular investment company?
5. Do you or your organisation have *professional indemnity insurance*?
6. Do you provide a written Statement of Advice (SoA) showing all investment fees, commissions and the total cost to me?

7. Is there a fee to get a SoA?
8. Does your written SoA explain the social security and taxation implications of the recommended strategies and products?
9. Does your written SoA show the risk potential of investments recommended and match them to my risk profile?

Finally: Are there any other fees or charges about which I have not been told?

If the answer to any of these questions does not satisfy you, contact another financial planner.

'Statement of Advice' (SoA) referred to in this document can also be referred to as 'Financial Plan'.

The advice given should:

- Be in writing and without obligation.
- Disclose all entry fees, *exit fees* and any other costs to you in dollar terms.
- Take into account social security and taxation implications.
- Include the exact reasons for selecting the proposed investments, showing how they meet your needs and objectives.
- Clearly state your risk potential.
- Provide for ready cash reserves.
- Spread your investments between product types and investment market sectors according to your risk profile.
- Indicate the level of income to be generated and match your income needs.
- Where a recommendation is made to transfer an investment from one product provider to another the reasons for the transfer and any costs should be stated.

Providers of Financial Advice

Australian Financial Services (AFS) Licensee

As from 1 March 2004 the Financial Services Reform Act (FSRA) requires all providers of financial advice to hold an AFS Licence or be an Authorised Representative of a licensee. As well as covering new entities, AFS licences replace previous licences for insurance brokers, securities dealers, futures brokers and futures advisers.

A holder of an AFS licence can:

- provide financial product advice
- deal in a financial product
- make a market for a financial product
- operate a registered scheme
- provide a custodial or depository service

Authorised Representative

Authorised representatives may be businesses or individuals who have been given authority by the holder of an AFS Licence to give advice on and sell their products.

Authorised representatives may hold authority from more than one licensee.

Other Considerations:

You should also satisfy yourself on a range of other issues before choosing to deal with a financial planner.

- Ask to see a copy of their *letter of authority*.
- Ask if they are limited in the proucts they can recommend.
- Ask what experience and qualifications they have in financial planning.
- Ask what source of research they use.
- Ask if they offer an ongoing service for monitoring the plan and what fees are charged for the service.
- Ask if the adviser will give advice which is suitable to my investment needs and financial circumstances?
- Ask what I should know about any risks of the investments or investment strategies recommended?
- Ask what information the adviser maintains in my file and whether I can examine my file?
- Ask if I can instruct the adviser to buy or sell my investments?

Always remember, it is **your money** so when selecting a financial planner don't be shy to ask questions. It may also be wise to obtain statements of advice from more than one financial planner before investing your money.

Your Financial Plan Interview

If you have decided you need the assistance of a financial planner and have satisfied yourself that the fees etc. are acceptable, you should prepare for your financial planning interview. The following is a guide to the information you may need to provide a financial planner at your interview. It also covers the types of questions you can expect to be asked by a financial planner and the types of issues you need to think about before the interview.

To receive a financial plan that suits you and which you can be comfortable with, it may be necessary to seek advice from more than one planner. When consulting more than one planner ensure you provide the same details (including lifestyle requirements) to each financial planner.

This will enable you to compare the SoAs prepared.

There are many providers competing for your money so remember to look for the products that are most suitable for you.

IT IS YOUR MONEY AND THE ULTIMATE

DECISION IS YOURS

Information Required

To assist your financial planner in making a worthwhile plan you need to give the following information :

- An idea of your basic living expenses *(see NICRI's Income & Expenditure sheet)*
- Details of your current income, including social security and/or Veterans' Affairs benefits, superannuation payments, annuities and other income;
- A copy of your last tax return and Notice of Assessment;
- Details of all your loan facilities and investments, including bank, building society and credit union accounts and funds available for investment;
- If you have investments that are not available for re-allocation give full details about them;
- An idea of your planned expenditure, e.g. money required for a holiday, new car, gifts, and house maintenance;
- An indication of the amount of investment risk you are willing to accept, if any;
- Insurance details such as life, Total and Permanent Disablement (TPD), income protection and general.

Refer to moneyap.nicri.org.au for tools that may assist with some of theses items.

Remember to take the relevant documents to your interview, to ensure full and correct details are given. This should include details of any investments held by a partner or in trust if applicable.

The more accurate the information you provide, the more likely the planner can produce a plan that should meet your needs.

Remember this interview is for fact finding and you should not have to place investments at this stage. The only document you may need to sign is to confirm information provided is correct and request to prepare a SoA.

What Questions Might A Financial Planner Ask?

For a financial planner to give you the best possible advice they need to understand your aims in life and your current situation.

So as well as providing the basic particulars and documentation previously detailed, you could expect to be asked the following:

- Do you own your own home?
- Is there a home loan outstanding?
- Do you have any other loans?
- Is your home in good repair or does it require maintenance?
- Do you have dependant children?
- What do you wish to achieve from a financial plan, i.e. your lifestyle objectives? For example, a higher income, tax efficiency, increased pension entitlements, a secure and regular income etc.
- To whom do you wish to leave your possessions (estate) upon your death?
- Do you have a current Will and an Enduring Power of Attorney?
- Are you likely to receive any inheritances?
- Do you have adequate insurance on your home, contents, car and yourself?
- Would you accept fluctuations in the value of your investments for a long term gain i.e. how much risk are you willing to take?

Other Considerations

- Interviews may take longer than you expect. Allow enough time for the interview especially if travelling by public transport.
- If travelling by car, allow plenty of parking time for the interview.
- Having a valid and current Will is an important part of financial planning. A Will is a legal document which indicates how you wish to distribute your belongings after your death. If you do not leave a valid Will the law decides how to share out your belongings. Further information is available from your legal representative.
- A Power of Attorney, of which there are several forms, is a legal document that allows another person to act on your behalf to make sure essential matters are attended to when needed. The trusted person may be a family member, friend, legal representative, accountant or public trustee. Further information is available from your legal representative.
- An ideal situation is to remain debt free throughout retirement but this is not always possible.
- As many financial institutions do not lend money to pensioners, retaining credit cards or other arrangements, provided you can control spending and afford the costs, may be an advantage. Reverse mortgages are an alternative becoming more common with retirees (see NICRI leaflet *Accessing the equity in your home*)

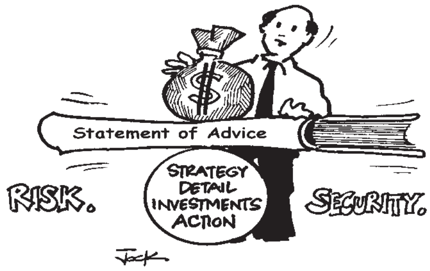
Checklist

Take the following along to your initial interview with a financial planner.

- Details of your needs & objectives. ☐
- Your basic cost of living expenses. ☐
- Details of current income for you and your spouse:
  - superannuation; ☐
  - social security/Veterans benefits; ☐
  - annuity income; ☐
  - income from other investments e.g. bank accounts. ☐
- Your last tax return & assessment. ☐
- Details of current investments, particularly those that are not available for re-allocation ☐
- Details of all loan facilities ☐
- Insurance details ☐

Refer to moneyap.nicri.org.au for tools that may assist with theses items.

Understanding Your Statement of Advice



Once you have received your SoA you should take time to study it. The following is a guide to help you understand the plan and decide if it meets your needs and objectives.

Written statements of advice vary substantially from planner to planner but there are four basic points that should always be covered in a well presented SoA.

- Strategy
- Plan Detail
- Recommended Investments
- Recommended Action

Remember: The advice is for investing YOUR MONEY. While a financial planner can assist with recommendations, the risks and final decision are yours. You should ensure:

- you fully understand the risks associated with each investment;
- the risk level is acceptable to you;
- the investments recommended in your SoA meet your needs and objectives.

If you don't fully understand the SOA or the investments ask questions until you do. You need to be comfortable with the plan before you proceed with the recommendations.

Strategy

The strategy should show the overall effectiveness of the advice in meeting your needs and objectives. It should take into account your basic living needs including:

- sufficient income provided on a stable basis to meet your daily living expenses;
- enough money to be available for planned major expenses;
- adequate easily accessible money to cover unforeseen expenses. This is an important part of any plan.

In addition, your plan strategy should review your existing investments as well as give a summary of recommended new investments.

Plan Detail

The detail in your SoA will vary between planners but should cover:

- estimated net income;
- appropriateness for individual client needs;
- fees and charges in dollar amounts;
- social security/ Veterans' Affairs;
- estimated tax liability;
- amounts to be invested in growth and/or income producing investments;
- insurance
- estate planning.

Recommended Investments

This section of the plan should cover specific recommendations and relevant information about the investments or refer you to where you will find the information in the Product Disclosure Statement (PDS) including:

- the name of the investment and the product provider;
- a brief description of the investment;
- an amount recommended for investment;
- the risk factor (level of *security*);
- the projected income and/or growth for each investment. Past performance is no guarantee of future performance as large fluctuations can occur;
- details of any guarantees;
- fees to be charged for placing investments;
- early withdrawal conditions and exit fees;
- on-going management fees;
- commissions due to the financial planner.

(**note:** the above fees and commissions may be mentioned in the plan detail)

Recommended Action

This section should clearly detail how you can proceed with the recommendation. Always read the documentation carefully - take it away with you and consider it at your leisure. Never sign on the spot.

Security and Risk

When assessing your SoA it is essential to understand the security of the investments chosen i.e. their risk. In its simplest form risk can be defined as "the chance of loss".

When applied to investments, risk is the combination of:

- the measure of the possibility of a market downturn causing a serious loss of your money; and
- the chance of lower than expected or no earnings from the investment.

Different investments have different levels of risk. You should be aware that the higher the expected return, the higher the risk. You should look at the risk of each investment and consider if both poor earnings, as well as loss of your money, are possible.

Investors are fully aware that share and property investments can rise and fall, but not many are aware that investments such as first mortgages, government bonds and other fixed interest investments carry substantial investment risks.

The risk associated with first mortgages is not necessarily a loss of capital but the loss of regular income if the borrower defaults on the loan. The capital and interest are generally recouped at a later date through the realisation of the security held. See NICRI leaflet *First Mortgages.*

Government bonds and other fixed interest investments may be sold on the fixed interest market. If the owner requires their capital before maturity it is necessary to sell the investment on the open market. Depending on which way interest rates have moved the investor may make a profit or loss. See NICRI leaflets *Fixed Interest Investments* and *Bond Trusts.*

You may invest in direct investments e.g. shares and bank accounts, or invest through a managed (pooled) arrangement e.g. master trusts, unit trusts etc, where the investment decisions are made by the investment funds' managers.

To understand the risks of these managed investments, it is necessary to know what the underlying investments (assets) are, i.e. what you are ultimately investing in, and how these behave. You need to understand the risks with these assets.

It is generally accepted that the risk is the chance of loss or an investment not performing to expectations. Another aspect of investment risk in managed funds is that the manager has changed the nature of the fund. For example an investor may have chosen an investment for its specific asset allocation or investment strategy but over time the investment manager has significantly changed the investments held by the fund resulting in either a higher or lower return than was expected. Investors should check with their investment adviser or fund manager if the actual return varies significantly from the expected return. A term widely used is ‘has the fund remained true to the label?’

There are five basic asset classes: cash, fixed interest, equity (share ownership), property and international assets. While the risk varies for each asset class, within each asset class the risk level can also vary from low to high depending on market behaviour, company management or the investment managers’ preferences.

It is essential to fully understand ALL risks associated with any investment recommended as it is you, not the planner or anyone else, who suffers the losses when they occur.

For further information see the NICRI leaflet ‘Understanding Risk’ and refer to our Investment Product Series leaflets for the particular investments which you are interested in, e.g. Shares, Fixed Interest Investments, Bond Trusts, Term Deposits, Equity Trusts, etc.

The Choices in Paying For Financial Advice

There are three ways in which financial planners receive payment for their services.

- Commission based
- Portfolio based
- Fee for service

Some planners offer a combination of the choices. Before deciding on a financial planner, the method of charging fees and the approximate cost should be known to enable you to make comparisons. *(See FSG)*

Commission Based

The financial planner provides services free of charge and earns nothing until your investments are placed. The planner then receives commission or brokerage from the investment fund manager for placing these investments. This commission is usually recovered from the fees you pay for entry to the investment and/or for the ongoing management of the investment.

For example, a 4% entry fee ($1 000) is deducted from a $25 000 investment - 75% of this fee ($750) might be paid to the planner in commission. Alternatively, an investment may have no entry fee but have a 3% exit fee if withdrawn in the first three years. Such exit fees, together with perhaps a penalty reduction in your earnings, reimburses the fund manager for the commission to the planner.

The disadvantage of this method is that planners know in advance the amount of commission they will receive for placing an investment and may be tempted to place your money in investments paying higher commissions and ignore the risks to you. They may also be tempted to leave insufficient money in bank accounts and term deposits for a reserve as no commission is payable. The advantage is you pay nominal fees unless you wish to proceed with the recommended plan.

This basis of charging is becoming less common.

Portfolio Based

The financial planner charges a scale of fees based on the total money available to invest. Any commissions payable are then returned (rebated) in part or in full to you either in the form of cash or as extra money in the investments.

For example, the amount paid to a planner might be a rate of 2.5% to place new investments.

The planner should receive the same payment regardless of where money is invested. This should lessen bias towards a particular product or fund paying higher commissions.

Some Commission based or Portfolio based planners may charge a fee to produce the SoA and refund it on implementation.

Fee for Service

The fee for service method is similar to the method other professionals use when charging for their services, e.g. solicitors or accountants. The overall fee depends on the time taken and complexity of the plan. You are charged whether the recommendations are accepted or not. The charge varies considerably between planners and may be based on an hourly rate for the actual time spent or a fee per plan. For example, if the financial planner charges a fee of $175 per hour for their services and it takes them ten hours to formulate and prepare a written SoA the fee paid will be $1 750. Fees could also include time actually spent placing the investments. Commissions received from placing investments are usually rebated either in the form of cash or as extra money in the investment.

Under this method the planner earns the same regardless of the amount, the performance or where your funds are invested. It should avoid possible conflict of interest caused by high commissions, providing a more objective plan.

Don’t Be Confused

When seeking investment advice you should expect to pay for the service and for professional expertise. The question is not whether you should pay but how much assistance is required and how much is reasonable to pay for the service provided. In some cases planners may be able to reduce or rebate certain fees so don’t be afraid to ask or negotiate.

Paying for financial advice and planning should not be confused with fees paid to the *Responsible Entity* to enter, exit or remain in the investments. Details of fees charged by the Responsible Entity on your investments are detailed in the PDS or prospectus.

These should be taken into consideration when assessing the suitability of a particular investment product.

Discount Brokers

Discount brokers offer another alternative which may reduce your fees. They charge a reduced brokerage on shares or will rebate to you most of the commission paid to them on entry to managed investments. They do not normally give any advice or make recommendations. However, they usually receive trailing commissions from the Responsible Entities on investments placed with them. The service offered may vary between discount brokers and you should ask for details.

This is a good option for investors who know what they want to do and only need assistance to place the investments.

Disclosure of Fees

All fees and commissions should be clearly disclosed in both the SoA and the PDS.

On-Going Commissions and Service Fees

Some planners may offer ongoing monitoring of your investment portfolio after implementation. You should consider how much assistance you require and how the planner charges for this service to determine if you require this service.

By leaving your money in an investment, planners often receive further payments known as "trailing commissions". The trailing commissions are usually paid from ongoing management fees and this fee may not change even if an adviser is not used. These commissions should be taken into account when assessing the planner's fees for the ongoing management of your investments. Some planners rebate these commissions.

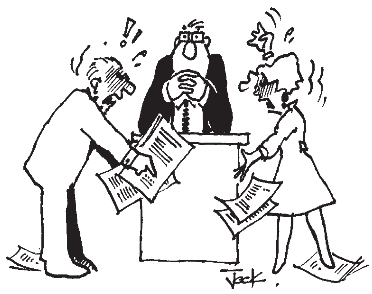
If investing in a product which will pay you a monthly income, eg. Allocated Pensions, you should ask whether there will be an administration fee for making payments. This usually applies where a cheque is posted instead of direct crediting an account.

Remember, ultimately all fees and costs are paid from your pocket.

Estate Planning

Estate Planning is not always fully addressed by financial planners when preparing a financial plan. Estate planning should address such issues of ensuring your Will is current, the need for Enduring Powers of Attorney, how your estate should be distributed and where appropriate the establishment of a testamentary trust. See NICRI leaflets *Estate Planning* and *Enduring Power of Attorney.*

Complaint Resolution



All AFS licensees are required to have in place appropriate internal means of handling their customer complaints.

Licensees are also required under the Corporations Law to join an external complaints resolution scheme approved by ASIC. This is designed to provide consumers with a relatively quick and cost effective means of resolving complaints (See NICRI Leaflet *Complaint Resolution Schemes*).

Internal Complaints Handling

Consumers must have their complaint dealt with under this internal system before they can have their grievance dealt with under the external complaints resolutions scheme. The guidelines provide that the complaint must be made in writing and processed within a specified time.

External Complaint Resolution

Currently there is only one organisation approved by ASIC to handle complaints in respect of Financial Services products and advice. The organisation is the Financial Industry Complaints Service Ltd (FICS). Consumers should not deal with licensees who are not members of the approved scheme.

The decisions handed down by FICS are binding on their members, but not on consumers who are free to pursue their complaints through the courts if considered necessary.

There is no direct cost to consumers for having their complaints heard by FICS. Complainants may be responsible for any costs they incur in obtaining their own independent advice or legal representation.

Other Complaint Resolution Schemes

If your grievance is not with a licensee but a financial institution you may be able to have your complaint heard by the Superannuation Complaints Tribunal (SCT), the Credit Union Dispute Resolution Centre (CUDRC), the Financial Co-operative Dispute Resolution Scheme (FCDRS) or the Australian Banking Industry Ombudsman (ABIO). If there are no other alternatives or you are not satisfied by the decisions of the various complaint resolution schemes you may be able to take legal action to determine your dispute or grievance.

Glossary

Allocated annuities - an investment offered by a life insurance company using superannuation money to provide a flexible regular income (page 2)

Allocated pensions - an investment offered by a superannuation fund to provide a flexible regular income (page 2)

Commission - money paid by an organisation to an intermediary for placing investments with that particular organisation

Entry fees - fees charged to set up an investment. Usually charged as a percentage of the money being deposited and deducted from the investment

Exit fees - fees charged to withdraw money (or redeem units) from an investment. Usually charged as a percentage of the amount being withdrawn and deducted from it or the balance remaining

Financial services guide - a document detailing relevant information about the financial advice provider and the services being offered (page 7)

General securities advice - Broad recommendation of investment market or type of product that should be used

Immediate annuities - an income stream product offered by insurance companies that provides a regular income over an agreed period in exchange for a lump-sum payment

Letter of authority - authorisation from licence holder to act on their behalf

Managed investment - professionally managed funds that pool money of numerous investors (for example unit trusts and insurance bonds)

Management fees - fees charged on the total value of the investment for the administration services etc; normally deducted before earnings are added to your account

Professional indemnity insurance - an insurance policy that covers advisers in the event of negligent advice

Responsible Entity - Following the passing of the Managed Investment Act the positions of Fund Manager and Trustee were replaced by a single Responsible Entity. In managed non-superannuation funds the position is known as Responsible Entity while in superannuation funds it is known as Trustee

Risk - chance or possibility of loss, or not getting the return you expected

Security - the safety of an investment

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LAST REVIEWED 12/10/06