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People with planners happier about their finances

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By Laura du Preez

Illustration: Colin Daniel

People with a financial adviser are better prepared for retirement and have more diversified investments, a survey has found.

Many people believe they don't need a financial planner because they can manage their own finances, but research shows that those who use an adviser have a higher level of satisfaction with their overall financial position.

This is according to a recent survey, the Financial Security Baro-meter, conducted by Ipsos Markinor for financial planning company acsis to gain insight into the need for financial planning and its connection to financial well-being.

The survey was conducted among more than 400 people (excluding acsis clients) aged between 35 and 74 years with a household income of more than R30 000 a month.

Fifty-three percent of the survey sample said they made use of a financial adviser, whereas 47 percent said they did not.

The survey canvassed the financial preparedness of the survey sample and found that those who use a financial adviser had more diversified investments than those who did not use one. It also showed that they had more life cover, short-term insurance and medical scheme cover, and were making better provision for their retirement.

Having enough risk cover secures your financial well-being by ensuring that you are prepared for adverse events such as ill-health, the death of a breadwinner and/or the loss of your possessions. A financial adviser can help you to establish that you have all the areas covered.

In addition, the survey found:

* 74 percent of the group who use an adviser had updated their wills in the past year, whereas only 51 percent of those who do not use an adviser had done so. It is important to ensure your will is up to date because changes to legislation or your family circumstances could necessitate that you adjust the terms of your will.

* 77 percent of respondents with financial advisers had an emergency fund, whereas only 56 percent of those without an adviser had one. An emergency fund equal to about three times your monthly income is important for all sorts of unplanned expenses, from an appliance or a vehicle breaking down to the loss of your job.

* 62 percent of respondents with advisers had investments across the different types of financial products – unit trusts, endowment policies, fixed deposits, and so on – whereas only 38 percent of the unadvised group did. Diversifying your investments is important, because it ensures that your investments' fortunes are not tied to the performance of only one market or asset.

Besides being more financially prepared, the survey found that people who use a planner generally feel more financially secure than those who do not.

Respondents to the survey were asked to score their financial security on a scale of one to 10, with 10 the highest score for those who felt the most secure.

The average score for all the respondents who use a financial planner was seven, whereas the average score for those who do not use a financial planner was six.

The survey report notes that 65 percent of respondents who have financial planners rate their financial security as high to very high, compared with just 40 percent of those without financial planners.

These findings clearly show that people who use an expert financial adviser to develop a financial plan are significantly empowered and this contributes to their financial well-being, Andrew Bradley, the chief executive of acsis, says.

The survey also shows that the retirees who took part in the survey were generally more financially secure than those who were still saving for retirement. The retirees had an average score of 7.2 out of 10, whereas the pre-retirees scored an average of 6.4.

The financial security of the retirees was influenced by their experience or enjoyment of the fruits of what they had provided for retirement, as well as their know-ledge of their financial affairs, the survey found.

The pre-retirees' financial security was influenced by the provision they are making for the future and their use of different types of financial products.

SLIGHT BIAS IN FAVOUR OF FEES

People prefer to pay their financial planner a fee rather than a commission, but the preference for fee-based advice is not overwhelming, the acsis Financial Security Barometer survey found.

The survey found that 50 percent of respondents who use a financial planner prefer to pay a fee, whereas 43 percent prefer paying a commission.

Among people who do not use financial planners, the survey found that 47 percent would prefer to pay a fee and 34 percent would prefer paying a commission.

The main disadvantage of paying a commission is that the planner may be influenced to advise you to invest in the product with the highest commission and may encourage you to switch products unnecessarily to generate new commissions.

But many respondents were of the view that being paid a commission would ensure that the planner provided good advice.

A large proportion of respondents could not mention any disadvantages of paying a commission, the survey found.

The main advantage of fees cited by survey respondents is that this method of payment leads to their receiving good advice, and the main disadvantage cited is the large amount of money required to pay the fees.

The survey found that most respondents who use a planner are aware that their planner has a formal qualification but could not specify it. Only two percent know that their planner has the Certified Financial Planner designation, which is regarded as the best qualification for planners.

PEOPLE WITH PLANNERS LIKELY TO START SAVING FOR RETIREMENT EARLY

There is a trend towards delaying saving for retirement, and it appears that people who use financial advisers generally start saving for retirement earlier and are more satisfied with their retirement planning. This is according to the results of the acsis Financial Security Barometer survey.

The retirees among those surveyed were asked to indicate the age at which they had started to save for retirement, and most said they had started to save between the ages of 20 and 39. The average age at which they had started to save was 29.6 years.

The pre-retirees were also asked when they had started to save for retirement. The average age for this group was 31.1 years, which shows that people are delaying saving for retirement.

The indication that people are increasingly delaying saving for retirement is concerning, Andrew Bradley, the chief executive of acsis, says. “With medical advances, people are generally living longer, meaning that their retirement savings will need to last a lot longer than previous generations' savings. So the fact that people are starting to save much later only exacerbates an already bad situation,” Bradley says.

The survey also shows that the average age at which people who use a financial planner started to save was 29.6 years, versus 33 years for those without a planner.

“While this difference may not seem like a big deal, an extra three or four years can significantly boost your retirement savings, as compounding works in your favour,” Bradley says.

Only five percent of the respondents who used a financial planner had not yet started to save for retirement, whereas 11 percent of those who did not have a financial planner had not yet started to save, despite the fact that they were over the age of 35.

Among the pre-retirees who were surveyed, 48 percent of those who use a financial planner were satisfied with their level of retirement planning, compared with 43 percent of the respondents who did not use a planner.

Retirees were asked whether they had made enough provision for their retirement, and 20 percent of them said they had not and wished that they had started to save earlier, whereas 53 percent said they had saved enough and were comfortable.

Among the retirees who said they had made sufficient provision for their retirement, the average age at which they had begun to save for retirement was lower than that of the average age of all the retirees surveyed.

Of those who were satisfied with the provision they had made for retirement, the average age at which they had started to save was 27.8 years, whereas 29.5 years was the average starting age for retirees who said they had saved as much as they could but that it was not enough.

The survey also found that, among all the respondents, those with a financial adviser used a greater variety of financial products to save. Products such as unit trusts and share portfolios were used to a greater extent by respondents with financial advisers.

OVERCONFIDENCE MAIN REASON FOR NOT HAVING AN ADVISER

Many people who do not use a financial adviser believe they can do their own financial planning, the acsis Financial Security Barometer found.

Just less than half of the survey respondents (47 percent) did not use a financial adviser, and of them 52 percent said they can do their own financial planning, while 21 percent said they feel they do not have enough money to consult an adviser.

The large percentage of people who think they can do their own planning “is concerning, especially as people often over-estimate their own abilities, particularly when it comes to financial planning”, Andrew Bradley, the chief executive of acsis, says.

Only seven percent of the respondents who did not use a planner said they do not trust advisers and another seven percent said they do not know whom to consult.

The survey also found that 42 percent of the respondents who have an adviser used an independent financial adviser, whereas 39 percent use tied agents or representatives to do their financial planning.

Tied agents or representatives are typically able to advise you only on the financial products of the company they represent or on a limited range of products beyond those of their company’s products. Independent planners may limit their advice to certain products but choose which products to recommend.

Nine percent of respondents use personal bankers or bank brokers, while six percent use accountants, lawyers or consultants.

Among the respondents with financial advisers, just over half of them meet their advisers at least once a year, while 26 percent meet their advisers on an ad hoc basis.

The high level of regular engagements with financial planners among those who use their services is encouraging, because regular contact is critical to ensuring a financially secure future, Bradley says.

“It is imperative to meet at least once a year, as well as when one experiences a major life-altering event such as marriage, divorce, having a child or receiving a promotion, because these may change your financial requirements and objectives,” Bradley says.

According to the survey, 52 percent of all respondents said that a planner is their main source of financial information and advice.

“However, it is concerning that 26 percent of all respondents said they are taking financial planning advice from friends or family, while 30 percent cited the internet. While the investments that friends, family or internet sources recommend may be good, they may not be appropriate for a particular person and his or her needs and circumstances,” he says.