



## Chapter 10 – Financial Advice

2 Questions





## Budgeting

- Manage money helps to pay bills and save.
- First step: Create a budget
- Track incomes/expenses.
- Helps to set savings goals & create an emergency reserve
- Then as savings grow, develop an investment plan or pay into pension.

## Borrowing

- Keep it under control.
- Assess whether its worth it
- Good debt should leave them better off (long term).
- Bad debts drain wealth, offer no real prospect for future.
- Interest rate and APR?
- Repayments?
- Penalties?
- Cost per week/month?

## Protection

- Critical Illness Insurance Cover
- Income Protection over
- Mortgage Payment Protection Cover
- Accident & Sickness Cover
- Household Cover
- Medical Insurance
- Long-Term Care
- Business Insurance

## Investment and Saving

- Regular savings add up, gain interest.
- Compounding increases saving's worth.
- Wide choice of saving accounts in the UK
- Investment involves committing money into investment vehicles.
- Higher risks than savings but outperform them in the long run.



## Later-Life Planning

- High life expectancy = higher level of income to enjoy retirement.
- Relying on the state is not advisable as demographics are changing & cost of state pension is increasing.
- Later the client starts saving for retirement, the lesser they will be able to put in the retirement fund.

## Estate Planning

- Consider appropriate steps to ensure wealth passes smoothly to beneficiaries and in a tax-efficient way.
- Assess the client's assets and liabilities.
- Use balance sheet for key areas:
  - POA to protect their interests
  - Whom they wish to inherit their estate to
  - Extent of any liability to IHT and whether any action can be take to mitigate.

## Tax Planning

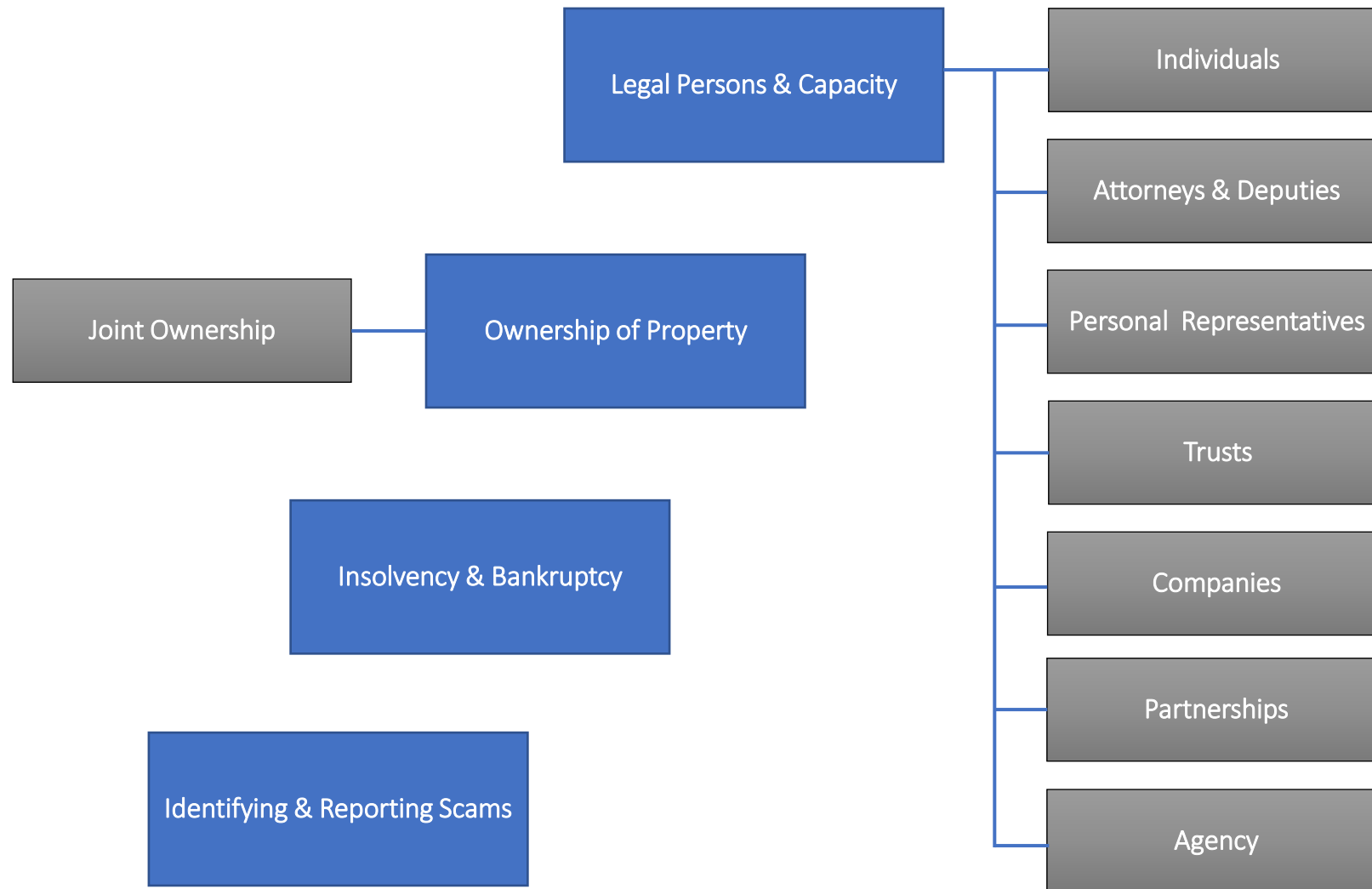
- Tax Avoidance vs Tax evasion
- No longer differentiated as legal and illegal.
- Public perceptions leading to the terms beings more carefully defined.
- 'Tax mitigation' is now referred as acceptable tax planning.
- International cooperation is increasingly used

## Offshore Consideration

- Each country has its own rules for tax.
- Worldwide or territorial-based system of taxation.
- Worldwide System: residents taxed on their worldwide income and gains.
- Territorial-based System: residents taxed only on income & gains arising in that country.



# Legal Concepts in Financial Advice



# The Financial Advice Process

Determine the client's requirements

Formulate a strategy to meet client's objectives

Implement by selecting suitable products

Revisit recommended investments to ensure needs are being met

Revisit the objectives and revise the strategy & products needed



# The Financial Advice Process

## Client Relationship & Communication Skills

- Establish an effective relationship with the client
- Nature of relationship depends on service given
- Adviser has a fiduciary duty to observe highest standards
- Best advisers listen to what the client wants

## Attitude to Risk

- Client's risk profile to be based on risk tolerance, attitude to risk and capacity for loss
- Risk profile: huge impact on financial planning
- Assess income and wealth relative to liabilities

## Matching Solutions with Needs

- Personal details
- Financial details
- Objectives
- Risk tolerance
- Liquidity and Time Horizons
- Tax Status
- Investment Preferences

## Suitability & Affordability

- Assess whether services are suitable for professional or retail client.
- Any other investment service should ensure its appropriate for that particular client.
- No personal recommendations should be made unless it suits the client



# The Financial Advice Process

## Information given to Clients

- Give info about their firm and any proposed investment
- Disclose material information
- Charges, cancellation rights, early encashment
- Penalties, risk warnings and any special or non-standard terms

## Consumer Rights

- Rights of a consumer are dictated by the contract between client and firm
- Clearly outline areas surrounding unfair terms, consumer credit, right to change of mind, 'cooling-off period' and how to withdraw or terminate

## Monitor & Review the Clients' Circumstances

- Imperative for client to review their plans and monitor progress towards objectives.
- Regularly update as minor changes lead to significant impact on financials
- Agree with client beforehand when periodic assessments and reviews will be done.





What is the difference between Tax Avoidance and Tax Mitigation?

- A. They are the same
- B. Tax Mitigation is publicly accepted
- C. Tax Avoidance is publicly accepted
- D. Tax Avoidance is illegal, and Tax Mitigation is legal

**EXAM** FOCUS

