

Commissions cost investors millions of dollars every year

Here are 8 things you should know about commissions

To work out what commissions are costing you go to www.mymoney.com.au

Why trail commissions are paid

Before the financial planning industry focused on providing advice rather than just product sales, trail commissions were introduced to encourage the sales person to keep the products in place.

As the industry moved to providing financial advice the trail commissions were justified as providing remuneration to the adviser for ongoing reviews and advice.

The obvious question for most people is what can you do if you are not getting any ongoing advice or service?

1. The types of commissions that are paid

Commissions fall into two categories – up front and ongoing.

Upfront commissions are those paid at the time of the product being bought and usually come out of the capital invested.

Trail commissions are generally paid out of the management fee charged to your investment and most companies pay this monthly.

2. Insurance commissions are different

Upfront commissions, as with investment products these are paid at the time the product is sold.

Renewal commissions are generally paid after the first year anniversary of the policy being in force and are normally paid as the premiums are paid i.e. monthly premiums would generate monthly renewals whereas annual premiums generate annual renewals

3. The level of commission normally paid

Upfront commissions can range from 0- 4% but some specialist funds can be higher.

Tax effective products can pay 10% or more in commissions.

Trail commissions can be as low as 0.1% on some cash management products but as much as 0.6% on many superannuation funds Insurance policies pay up to 130% of the first year's premiums as commission and 10% per annum renewal premium. However, some policies, particularly when written in superannuation master trusts can pay 20% to 30% per annum commission.

4. The types of products that pay trail commissions

- Retail superannuation funds (not industry funds)
- Managed funds (including Cash Management Trusts)
- Personal insurance (term, trauma, income protection)
- Margin loans



5. You often cannot turn off commissions

Where the commissions get paid from your account (as is the case with most wrap accounts) you may be able to direct the Manager to turn off the fee. However, where the commission is paid from the management fee as is the case with most retail superannuation funds and insurance policies, you, as the product owner, cannot direct the payment to be turned off.

6. Commissions will not disappear in the future

The likelihood is that at some point in the future commissions may be removed from all new products sold – the Financial Planning Association is advocating 2012 as the date for this. However, almost all commentators have indicated that existing products will remain unchanged as the cost and complexity of systems changes will be prohibitive. Therefore, it is likely that any products that you own which pay trail commissions today will continue to do so for as long as you own the product.

7. Commissions can be difficult to track accurately

By their nature, trail commissions are made up of lots of small payments paid at least monthly. A robust technology platform and experience is required to accurately track and account for all payments.

8. Offsetting against fees is not enough

Many financial planners offer to offset commissions received against fees that are to be paid. The key question to ask is, "what happens to these commissions should you choose not to continue paying for ongoing service in the future"?

The MyMoney Solution - MyMoney gives you control over commission payments.

How it works:

Once you nominate MyMoney as your designated intermediary any commissions payable will come to MyMoney.

MyMoney credits these to your MyMoney account and at the end of each month the funds will be deposited directly into your nominated bank account.

Key Features:

- No joining fee
- Max annual fee of \$240 covers all the products for a family group.
- Detailed online reporting.
- Monthly activity statement
- Monthly payment direct deposit.

