

# THE ORIGINAL AND AUTHENTIC PRACTICE **VALUE** INDEX

## Are you a financial orphan?

**Lis Hughes**, managing director at Frank Taylor & Associates explains more...

Did you know about new regulations that came into force from January 2013, called Retail Distribution Review (more commonly known as RDR)? As a result, financial advisers are no longer able to receive commission on pensions and investments, instead they have to be transparent and discuss and agree their fees with the clients.

You may wonder why this could affect you and it's possible that you might not even be aware you have been affected, but in fact, a significant number of clients have recently been dropped (orphaned) by their own independent financial advisers (IFAs) for no longer being profitable enough. However, your financial commitments to your pension or investment will continue and as your IFA will continue to receive an annual trail commission from this, you can see why some (not all) advisers don't want to raise the issue and make the client aware. We would expect that most clients may want to move to better investments, which would be great for the client but bad news for the IFA as he/she would lose this trail commission, so very often the end result is that some clients are potentially stuck in a poor performing investment.

### Changes and chaos

These changes have caused chaos across the financial services industry as the new regulations have forced IFAs to undertake additional training and examinations. Not all IFAs have taken on this new challenge, which has resulted in a number of IFAs leaving the industry, thus leaving their clients without an adviser.

Many of the high street banks have also disbanded their IFA arm, or will have limited IFAs to look after their very high net-worth clients. Hard to get an accurate figure, but we understand it could be thousands left without any financial advice. At the moment, if you pick up the telephone to speak to your bank's IFA, you will be told it may be up to six to eight weeks before a bank representative can contact you – particularly if you are looking for a mortgage.

The number of dentists who have effectively become 'financial orphans' are unknown, but you may be one of

them so it is always worth checking with your IFA – an unreturned phone call should be a red flag to you.

However, there are some benefits of being financially orphaned.

The new rules mean there is a transparent charging structure that allows you, the client, to compare charges between IFAs and be confident that you are being advised on the best product for you rather than the highest trail commission for the IFA.

### Your choice

As the client you can choose what type of service you would like from your IFA and can opt for either a once off service or an initial review and on-going service. Each service will come with a fee, but you will be made aware of the fee before signing up for any IFA services.

Under the new rules, advisers can choose the type of service they wish to provide and operate under, independent advice or restricted advice. Independent advice is as the name says, advice from the whole of the market, restricted advice means that they may not offer products from the whole of the market and may work off a panel of providers for pensions and investments.

There is much activity on the internet on personal and professional insurances and whilst it may be a useful guide we always issue a word of caution – as we have had personal experience of dentists buying insurance from a



website thinking there is full cover and then discovering at their cost this may not be the case. For example, critical illness can be

job specific and the fact you can no longer work as a dentist but are still able to stock supermarket shelves can mean your critical illness cover will not kick in. **D**

**FOR MORE INFORMATION** call Frank Taylor & Associates on 0845 612 3434 or the regional office on 0161 638 0875, email [team@ft-associates.com](mailto:team@ft-associates.com) or visit [www.ft-associates.com](http://www.ft-associates.com).

### Practice one – Yorkshire

The practice occupies a detached three-storey property, in a predominantly residential area. The practice is fully computerised, with digital X-ray and a separate decontamination room.

**Practice type:** A mainly NHS eight-surgery practice, being sold leasehold with a 20 year lease.

**Practice financials:** The annual gross fee income from the management figures is shown to be in the region of £1,300,000, of which 96% is the NHS-GDS (general dental services) contract with the remaining 4% made up of fee-per-item income. The principal does not work at the practice and the gross has been generated from five full-time associates, one full-time hygienist, a beauty therapist and six full-time nurses. Professionals complementary to the clinical team comprise of two full-time receptionists, a full-time reception manager and two part-time administrators.

**Price achieved:** A price of £1,900,000 was achieved that was in excess of the asking price. Funding for this purchase was obtained via FT&A Finance.

**Agent's comments:** This practice combined a great location, with a brilliant NHS-GDS contract and proved to be incredibly popular. As an associate run practice, the new principal can easily see ways of increasing the turnover by working in the practice and with a lease of 20 years the bank was able to provide funding for the practice over the lease period.

### Practice two – north west

The practice occupies a large two-storey semi-detached property situated on a main road. There is a number of private parking spaces and also free street parking.

**Practice type:** This is a mixed practice with three surgeries; the practice is being sold as freehold.

**Practice financials:** The gross fee income for the last 12-month period is shown to be in the region of £535,000 with 60% generated from fee-per-item, 5% of Denplan fees, 33% from NHS-GDS (general dental services) contract with the balance generated from sundries. The gross has been generated from the principal working four days-per-week with the support of one full-time and one part-time associate and two part-time hygienists. Professionals complementary to the clinical team comprise of three full-time and one part-time dental nurse, one full-time and one part-time receptionist, and a full-time practice manager.

**Price achieved:** A price of £752,000 was achieved that was slightly higher than the asking price.

**Agent's comments:** This practice has been part of the local community for more than 50 years, with the current principal taking ownership more than 40 years ago. The principal will be staying on at the practice on a part-time basis post sale for two years, which could really help to secure the private goodwill value.

### Practice three – south east

The practice occupies a part of the first floor in a purpose built commercial property, situated within a mix of residential homes and local shops.

**Practice type:** NHS two surgery practice being sold as leasehold to facilitate retirement sale.

**Practice financials:** The reconstituted profits equate to approximately 50% of the turnover, and have remained extremely consistent from one accounting year-end to the next. With 99% of the annual gross income generated through the GDS (general dental services). The gross has been generated from the co-principals working three and four days each per week. Professionals complementary to the clinical team comprise of two full-time dental nurses, one full-time nurse and a part-time receptionist.

**Price achieved:** A price of £337,727 was achieved that was the asking price, funding for this purchase was obtained via FT&A Finance.

**Agent's comments:** The principals set up the practice from a squat back in 2004, and since then the practice has gone from strength to strength, as clearly demonstrated by the figures. The principals have retained the freehold and created a 15-year lease that has enabled the purchasers to secure a loan over this period.