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Thirst for improvement

Kathy Havers CFP® talks about her commitment to helping disabled and disadvantaged Australians

THIS ISSUE: Retirement incomes / Value of advice / Term life insurance
Building business using videos / SMSF investment strategy

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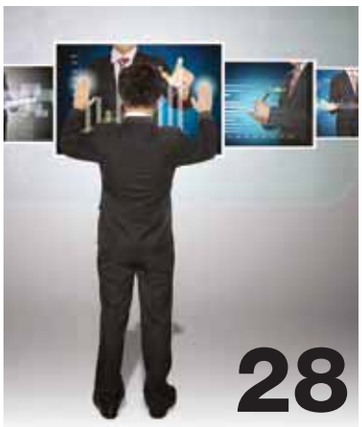

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Achieving the dream means working together

To achieve consumer trust and recognition, professionalism must sit at the heart of the financial advice eco system.

An eco system functions properly when each and every component is working in harmony. The financial advice eco system is no different.

To achieve the best outcome – that is, a better financial future for Australians – our profession must unite and work together for the greater good. In my mind, there are three components to our professional eco system: Culture, Education and Ethics, and Structure.

Culture

Corporate culture is a powerful thing. When companies get it right, it can turn a good business into a truly great business. In order for our profession to fully embrace the opportunities ahead of us, our culture, in its entirety, must evolve.

Imagine if every organisation built a culture that supported professional independence of thought and action, where the financial planner must always act in the best interest of the client. This is the only way we can really start to build consumer trust. Transforming corporate culture is never easy, but facilitated by great leadership, such change does not have to take forever.

It is crucial that all key parties in our eco system support higher education and ethical training of financial planners.

Education and Ethics

It is crucial that all key parties in our eco system support higher education and ethical training of financial planners. Enshrining the lifting of education standards into law would ensure a consistent standard and ultimately, level playing field in the provision of financial advice.

It is great to see so many institutions voluntarily lifting professional and education standards. To ensure this movement is effective, the entire industry must rally to raise the bar. This will counteract the negative news stories that taint our profession, as a result of a few bad apples.

Structure

The final component in all of this is structure. Our profession must facilitate a separation of product sales and professional advice, through separate reporting structures and compliance boards.

Such separation is vital, and will require that mechanisms are in place to avoid the potential for conflict. The provision of financial advice that generates sales, but is not in the client's best interest, no longer has a part in our world.

The best thing we can do for our profession, and for Australians, is stand behind the PJC Inquiry recommendations into increased education, and professional and ethical standards. In doing this, we start to swing the pendulum and create a momentum that will accelerate our progress as a respected profession.

As you know, we recently kicked off the 2015 FPA National Roadshow, which will visit 33 locations across the country. In collaboration with Challenger and Zenith Investment Partners, this session will focus on retirement, but will also cover off on what the PJC Inquiry, FSI Report and FoFA means for you.

Visit fpa.asn.au/roadshow to secure your place.

Enjoy this edition.

Mark Rantall CFP®
Chief Executive Officer

Longevity insights for Intergenerational Report

In its response to the 2015 Intergenerational Report, the FPA has called on the Government to encourage more Australians to seek the services of a financial planner in order to help better fund their own retirements.

Key findings in the 2015 Intergenerational Report show that Australians are living longer and healthier lives, having one of the longest life expectancies in the world. However, longevity and a rapidly ageing population will continue to add pressure on Government funding of social security entitlements, including the Age Pension.

According to the report, by 2055 there will be only 2.7 working Australians for every person over 65, compared with 4.5 today and 7.3 in 1974-75. Life expectancy at birth will be 95.1 years for men and 96.6 years for women, compared with 91.5 and 93.6 years today.

FPA chief executive officer, Mark Rantall said that while the report does not anticipate a decline in the proportion of retirees receiving the Age Pension, it does project an increase in the proportion of part-rate relative to full-rate pensioners.

"The Intergenerational Report makes it very clear that there is a link between super savings and reliance on the Age Pension. Fewer people relying on the Age Pension will clearly help reduce the overall financial burden on the nation. That's where getting the right financial advice comes in," Rantall said.

He said those Australians who do receive financial advice are more likely to only rely on a part-pension rather than a full pension; they are more financially secure; have a greater standard of living; and are able to better manage any longevity risk.

"The role financial planners play in enabling this is pivotal," Rantall said. "They have the knowledge to assist consumers in accumulating a larger and more adequate retirement savings balance and the ability to implement appropriate strategies of drawing down income and managing longevity risks."

The president of the Actuaries Institute, Estelle Pearson, said the report should be a wake-up call that safeguards the living standards for future generations.

"The report provides a valuable insight into the demographic challenges Australia faces over the next four decades," Pearson said. "The report demonstrates conclusively that policy action is required if the Government and the community want to ensure that older Australians enjoy a comfortable retirement without unfairly burdening younger generations."

2015 National Roadshow rolls out to Chapters

This year's annual FPA National Roadshow kicks off later this month in Geelong on 27 April, finishing two months later in Wollongong and Sunraysia on 23 June.

Over this period, the roadshow will visit 33 locations, providing members with an update on FoFA, the FSI Report and the PJC Inquiry.

This year, the roadshows will be run in partnership with Challenger and Zenith Investment Partners, which will provide attendees with a presentation on retirement, with a particular focus on the specific needs and risks of retirees. Members will be given an insight into innovative strategies designed to provide a different approach to portfolio construction for this segment of the market.

Places are limited, so FPA members and their guests are encouraged to register early to attend this event. All roadshows are free of charge to attend. For more information, go to www.fpa.asn.au/roadshow

Save the date*

27 April
Geelong – 12pm-2pm

28 April
Ballarat – 7:30am-9:30am

29 April
Bendigo – 7:30am-9:30am

Mid-North Coast (Port Macquarie) – 12pm-2pm

30 April
Mid-North Coast (Coffs Harbour) – 7:30am-9:30am

Goulburn Valley – 7:30am-9:30am

5 May
New England – 12pm-2pm

6 May
Western Division (Dubbo) – Morning Tea

7 May
Western Division (Orange) – Morning Tea

19 May
Brisbane – 12pm-2pm

21 May
Melbourne – 12pm-2pm

22 May
South Australia – 12pm-2pm

27 May
Sydney – 12pm-2pm

29 May
Western Australia (Perth) – 7:30am-9:30am

1 June
Hobart – 12pm-2pm

2 June
ACT (Canberra) – 12pm-2pm

Townsville – 7:30am-9:30am

3 June
Mackay – 7:30am-9:30am

4 June
Northern Territory (Darwin) – 7:30am-9:30am

Rockhampton – 7:30am-9:30am

5 June
Wide Bay – 7:30am-9:30am

10 June
Far North Coast NSW (Ballina) – 7:30am-9:30am

Gold Coast – 12:30pm-2:30pm

Toowoomba/Darling Downs – 12:30pm-2:30pm

11 June
Sunshine Coast (Maroochydore) – 7:30am-9:30am

16 June
Cairns – 7:30am-9:30am

Riverina – (Wagga Wagga) – 12pm-2pm

17 June
Albury Wodonga – 7:30am-9:30am

18 June
South East Melbourne – 7:30am-9:30am

Newcastle – 12pm-2pm

19 June
Gippsland – 12pm-2pm

23 June

Sunraysia – 7:30am-9:30am

Wollongong – 12pm-2pm

** Breakfast or lunch is included*

Planner fee for ASIC Register

ASIC will charge planners $43 each when registering for inclusion on the ASIC Register, available through the ASIC MoneySmart website. This fee only applies if lodgement is made electronically. A fee of $79 will apply for all other lodgements made other than electronically.

The ASIC Register of financial planners went live on 31 March through the MoneySmart website at www.moneysmart.gov.au. Planners can still lodge their registrations for the ASIC Register through ASIC Connect.

The fee model will operate during a transition period, which the regulator says will end on 30 September, 2015. Following this date, late fees will apply to planners and licensees registering. These late fees will range from $74 to $308.

Information on the register includes details of all planners employed or authorised – directly or indirectly – by AFS licensees who are authorised to provide personal financial advice to retail clients on Tier 1 (investment) products.

Tier 1 products are financial products other than basic banking products, general insurance products or consumer credit insurance products or a combination of any of these products.

The regulator has confirmed there will be no additional cost for planners to include their educational qualifications and professional memberships on the ASIC Register. This also extends to any changes relating to a planner's professional status, such as change of licensee, change of products that a planner can advise on, and ceasing to practise as a planner.

For more information, go to www.asicconnect.asic.gov.au

CFP® summer semester

The CFP® Certification Program has recorded a spike in enrolments for its summer semester, recording a 200 per cent increase in registrations.

FPA chief executive officer, Mark Rantall in part attributed this result to the increased flexibility of the program, along with a commitment by the Commonwealth Bank, Westpac, AMP and NAB/MLC to lift the educational and ethical standards of its planners.

"For the first time ever, the CFP Certification Program enables planners to choose which unit they want to study first and provides them with a pre-admission service," he said. "This makes it easier to create a 'personalised' pathway into the program – one that works around planners' lifestyle and work commitments."

Rantall added that of the 700 students enrolled this semester, a number are returning students who are re-entering the program after taking a break from their CFP certification studies.

He added that the FPA was committed to working on a one-on-one basis with planners to find a tailored solution for those who want to join the program and complete it, by providing the necessary tools, support and flexibility. These include online subject rooms, webinars and peer-to-peer study groups.

UK pension changes

From 6 April 2015, UK pensions are changing and will affect those who are aged 55 or over and have a pension based on how much has been paid into the individual's defined contribution pension.

The new State Pension will replace the current State Pension scheme, and is a regular payment from the UK Government that UK nationals can claim when they reach State Pension age on or after 6 April 2016. To be eligible, a man needs to have been born on or after 6 April 1951 and a woman needs to have been born on or after 6 April 1953.

The full new State Pension will be no less than £148.40 per week. An individual's National Insurance record will be used to calculate their new State Pension amount. To be eligible to receive this pension, an individual usually needs 10 qualifying years, although they don't have to be 10 qualifying years in a row.

UK nationals now residing in Australia are eligible to claim the new State Pension.

For more information, go to www.gov.uk/new-state-pension

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The FPA congratulates the following members who have been admitted as CERTIFIED FINANCIAL PLANNER® practitioners.

NSW

Antoinette Mullins CFP®
Wealth Creation Advisors

Christopher Burge CFP®
Ord Minnett

QLD

Guy Beevers CFP®
Beevers Financial Services

SA

Samantha Harrison CFP®
Hood Sweeney Securities

Michelle Brandell CFP®
Beyond Bank Australia
Wealth Management

VIC

Matthew Kitchen CFP®
Precision Financial Services

Mladen Tosic CFP®
Financial Planning By Design

Corey Wastle CFP®
Commonwealth Financial Planning

Freya Poynton CFP®
Sornem Private Wealth

Life risk commissions

Q: The FSI Report has recommended changes to upfront life risk commissions, requiring the Government to legislate that upfront commissions cannot exceed ongoing commissions. Do you agree with this recommendation?

Cherie Feher CFP®

Head of Financial Planning Support, Koda Capital

Licensee: Koda Capital

No, I don't agree with this recommendation because I don't think this 'solution' is sufficient to solve the over-arching goal of ensuring clients receive appropriate advice, regardless of commission received by the adviser.

In my mind, there are three issues that need to be considered:

1. How do clients obtain advice that is driven solely by what is in their best interests and divorced from any conflicts of the issuer and/or advice provider?
2. How do clients make informed decisions that connect their personal circumstances with products and services that best meet their needs?
3. How are advice providers compensated fairly for the time and expertise that they bring to the client, so as to encourage competent, well trained people to provide advice?

In order to address these issues adequately, a compensation structure needs to be transparent, so the client knows exactly what they are paying. Once the compensation to the adviser is understood, the client should have a choice of how to pay, including the option to pay for advice, with commission rebated in full and a linked benefit of reduced premiums.

An adviser's fee for advice (and product selection) should be agnostic to the client's choice of how to pay, and the fee should represent a reasonable return for the time and expertise the adviser has brought to bear in formulating and implementing their advice.

The recommendation in the FSI Report has been put forward to deal with the serious issue of churning. However, it disregards the most common application, which is to place insurance for a client who currently has no existing cover. Limiting a client's choices for how they pay for advice, including through direct up-front commissions to advisers, is not justified. All options should be made available to clients, allowing them free choice.

We should remain focused on addressing inappropriate advice at its core by maintaining high education and ethical standards, and advisers who do not act in the best interests of clients have no place in the profession.

Daryl La'Brooy CFP®

Financial Adviser, Hillross Financial Services

Licensee: Hillross Financial Services

There is a lot of initial work advisers need to perform to bring on board a new risk insurance client. Generally, the younger the client, the easier it is, as they don't have an extensive medical history. However, the premiums and therefore the commission for those clients are lower if using an upfront commission model. So in this example, the reward for effort is aligned. Younger people are usually covering a lower amount of income and debt.

Middle-aged people though face higher premiums and generally have more medical issues to cover. So there is more work needed by the adviser and if affordability isn't an issue, the premiums and commissions are higher.

There is no certainty the Federal Government will implement the FSI recommendations. Instead, it may wait to see what the life insurance industry does following the Trowbridge Report being finalised later this year.

Clearly, there are two issues at work. Some life insurers are suffering from reduced profitability and need to do something about it. Reducing costs to acquire clients is one option. There are also a small number of advisers (statistics on this would be useful) who move clients based on lower premiums from one insurer to another and collect a commission payment along the way. We are seeing this in the traditional investments space as well, where there are some advisers persuading clients to move from high-cost funds to low-cost funds for a fee.

I don't agree to a change being made to the remuneration model until I see evidence that the high upfront commission model is leading to extensive churning. Certainly, one insurer I spoke to hasn't seen a fall in profitability due to churning and is happy to continue to run with the present system.

As advisers have to accept what the insurers are willing to pay, unlike a fee-for-service model, given all the media coverage, prepare for a change to the current arrangements and therefore, the sort of remuneration arrangements some of us are receiving now.

Want to have your say? Join the debate on the FPA Members' LinkedIn Forum.

Rob Coyte CFP®

CEO and representative,
Shartru Wealth Management

Licensee: Shartru Wealth Management

I was indifferent to banning on commissions on investments, as if you had money to invest, you have money to pay advice fees.

Insurance, however, is a different kettle of fish, as some clients who need advice cannot afford advice. In effect, what commissions do in this case is they 'fund' the client's advice fee in the cost of the product.

I would also say that all consumers and advisers currently have the opportunity to rebate commission and operate under a fee-for-service arrangement.

I believe that as the 'market' provides the option to the adviser/consumer, then regulation is not required, as the negative effects can be greater than the benefits.

Furthermore, I believe the law under FoFA with the Best Interests and the Client Priority Rule (s961J), regardless of how an adviser charges their client, they are subject to the same standard of advice.

Given the current law effectively protects consumers against unscrupulous conduct by the few 'bad eggs', what is imperative now is that this law is enforced. There is no need to continue to look for magic bullets to problems like churning and so forth, as the solutions are already present in the existing law.

In fact, I believe that a group of advisers are using this debate to further their own fee-for-service business models over their competitors by muddying the waters with a raft of claims none of which can be substantiated.

The only thing that matters is if the advice is appropriate and the client receives value for such advice. The argument around fees versus commissions doesn't deal with either of these key factors in any meaningful way.

Charles Badenach CFP®

Principal and Private Client Adviser,
Main Street Financial Solutions

Licensee: Lonsdale Financial Group

The traditional remuneration model for personal insurance needs to be adjusted to reflect the changing expectations of consumers and the increased standards of professionalism that are now expected from the financial services industry.

Whilst change is necessary, I disagree with the recommendation put forward in the FSI Report.

A one-size-fits-all approach is not going to work for many advisers. This approach fails to take into account the work involved with an individual client. Every client, as we all know, is different. Some require more work, investigation and analysis than others.

As the work varies, the cost of servicing that client will also vary and as financial advisers, we cannot simply charge a standard fee for the work. As professionals, we need to have the discretion to charge an appropriate fee for any work which we undertake.

In addition, new clients generally involve significantly more work than an existing client with whom you have an established relationship with. The proposed fee structure would mean that it would be uneconomic for many businesses to take on new clients on this basis.

For any professional relationship to work, a client must understand what they are paying and what they are receiving.

In the event that the cost of providing the advice is greater than the remuneration which the adviser receives, it becomes an uneconomic proposition and advisers won't service those clients.

This will lead to the inevitable situation where a segment of the population is unable to access professional financial advice.

Would you like to join our panel of FPA members willing to give their opinion on topical issues? Email editor@financialplanningmagazine.com.au to register your interest.

The fuel for advancement

For David Woolford CFP®, eliminating costly back-end inefficiencies is one of the greatest challenges facing the profession.

Name: David Woolford CFP®

Age: 31

Educational Qualifications: Bachelor of Economics, Graduate Diploma of Financial Planning

Position: Wealth Adviser

Practice: Collins SBA

Licensee: Godfrey Pembroke

FPA Professional Practice: Yes

Date of CFP designation: November 2014

Years as a financial planner: 5

1. Why did you decide to become a CFP® professional?

I began my career as an Associate Adviser with Collins SBA in 2010. After completing a Graduate Diploma of Financial Planning, I became an Authorised Representative. My passion has always been to work directly with clients helping them achieve their personal and financial goals. As this became a larger part of my role, I quickly realised that I wanted to be able to demonstrate that I was at the top of my profession. The CFP Certification Program was the ideal choice for this.

Given the current environment that encompasses financial planning, I believe that it is imperative to be viewed as a leader in your profession, not just from an educational and experience standpoint, but also from an ethical standpoint. The ethics unit in the CFP Certification Program and its foundation around the FPA Code of Practice, along with the other units, provides confidence to clients that they are working with an adviser who strives to reach a benchmark that is well above the industry standard.

2. How did you approach your studies for CFP certification?

I commenced my studies in the CFP Certification Program immediately after I completed my Graduate Diploma. The support provided by the FPA was fantastic. The online tutorials and online forum allowed students to communicate questions and ideas with one another, as well as industry professionals, who provided a practical aspect to the course material.

The FPA also directed me to others nearby who were undertaking CFP certification. Having the ability to sit with a peer, regardless of employer or dealer group, was extremely helpful in terms of exam preparation. The CFP Certification Program exam encompasses all five CFP units, so to have another perspective on how and what to study, and with organising your material, was beneficial to both of us.

3. How did you find the four 'Es' to CFP certification (ethics, education, examination and experience)?

I have always learned best by doing, so for me, the education and experience went hand-in-hand. I can read a text book all day, but in order to really learn, I need to be able to apply that theory to real client situations. The ability to study, while practising as an adviser to gain experience in the profession, was critical.

I think the most important part of the CFP Certification Program is the focus on ethical behaviour and decision-making. As advisers, and as a profession, we're bound to do what is in the best interest of the client, however, there is really limited control to ensure that is

I think the most important part of the CFP Certification Program is the focus on ethical behaviour and decision-making.

actually occurring. One of the key benefits of the CFP designation is that you can articulate the ethical focus of the FPA as an organisation and the ethical guidelines that CFP designated advisers adhere to.

4. What is the most challenging aspect of being a financial planner?

The financial planning industry as a whole has come a long way in terms of compliance and regulation over the last decade. In order to deliver progressive strategic advice to clients, we need to keep learning, training and evolving as planners and planning practices.

The evolution of compliance is a positive step for the industry, however, the delivery and implementation of these processes into businesses is very inefficient. From a planner and business standpoint, the implementation of increased compliance is leading to a reduction in the time we can spend adding value to our clients' situations, which is our goal. From my point-of-view, this is the biggest challenge facing financial planners and planning practices.

I believe continuing on the path that the FPA is leading by increasing the minimum educational and ethical standards, will lead to eliminating these costly back-end inefficiencies and going forward, our dollars can be better spent investing in education of all graduates, advisers and consumers.

5. What is the most challenging aspect facing the profession?

The biggest challenge I see for the industry as a whole is getting the public to trust the industry again. For a number of years, there has been a continual stream of negative media focusing on the financial planning industry, investment managers and financial institutions; a lot of it misrepresented and inaccurate. There have been countless reforms, legislative changes and inquiries that leave a black mark against our profession that is hard to erase.

If the media was to focus on the majority of the profession, which do provide long-term valued relationships with clients, instead of focusing on the negative minority, we might see financial planning portrayed as a profession that will add value to those who need help.

6. How do you cope with the daily stresses of being a planner?

It's important to remember why we chose this profession. We have the ability to go on a journey with our clients and help them achieve lifestyle and financial goals. There is nothing more rewarding than helping your clients achieve things they wouldn't have been able to without your help, and that is the fuel you need to keep making a difference.

So, by maintaining a goal-orientated focus with clients, you continue to add value in the relationship and also ensure they stay 'on-track' to achieving the things that will deliver their desired lifestyle – up to and through retirement.

It's also important to maintain a work/life balance. Everyone has interests outside of work and in order to keep yourself fresh and driven, you need to make time for yourself and detach yourself from the pressures of work.

You haven't truly lived until you've done something wonderful for someone who can never possibly repay you.

Name: Kathy Havers CFP®
Age: 45
Practice: Catalyst Financial Group
Licensee: Magnitude
Years as a planner: 15
CFP® designation: August 2004

The thirst for improvement

The national winner of the 2014 Future2 Community Service of the Year Award, Kathy Havers CFP®, talks about her commitment to improving the lives of disabled and disadvantaged Australians. Jayson Forrest reports.

How does anybody – let alone a mother with a special needs teenage son – manage a full-time career as a financial planner, while serving as president of her son's School Council, speaking at conferences, working with women and families with disabilities, and assisting indigenous communities in the Northern Territory?

Yet, through structure, delegation and prioritisation, Melbourne-based planner Kathy Havers manages all these things and more – it's enough to make you feel inadequate.

It's this very commitment to various community groups that has seen Kathy take out the 2014 Future2 Community Service of the Year Award.

For Kathy, winning the award means more than the personal recognition and positive profile that it brings to her and the wider profession – it's about the positive difference the profession can make to people and communities in need.

"Awards like these do help to counter the negative media publicity in the market," Kathy says. "But for me personally, it's about the opportunity to encourage other professionals, whether they are financial planners, accountants or others in the financial services industry, to actively do something by getting involved in community service."

Kathy's motivation to enter the awards was as much about profiling the pro bono work undertaken by Catalyst Financial Group, which she established in July 2008, as it was about creating an example for others to support not-for-profits. Having submitted successful applications for the Future2 Make the Difference! Grants, entering the Future2 Community Service Award was a no brainer for this 45-year-old.

Pro bono

As a professional, Kathy is a passionate advocate of pro bono advice, which she believes is critical for the planning community.

"If we want to be seen as being a profession, then it's necessary we act as a profession," Kathy says. "We need to share our skills and expertise with individuals and community organisations that are in need of our help but simply can't afford our services. It's all about how we are really seen within our professional community."

She attributes a big part of her motivation towards pro bono to her 17-year-old son, Brady who is severely autistic. Through her own experience as a mother and having worked closely with Autism Victoria, Kathy is uniquely placed to help other families manage the lifelong emotional and financial roller-coaster of coping with and planning for a disabled child.

"A client came to me recently through a legal referral. They were overjoyed to find somebody who understood them and their situation, and the many different things that worried them at night.

Continued on p16

State winners: 2014 Future2 Community Service of the Year Award

The FPA congratulates the following CFP® practitioners who have been named state winners in the 2014 awards.

WA: Joseph Hoe CFP®, Wealthwise

NSW: William Johns CFP®, Health and Finance Integrated

VIC: Kathy Havers CFP®, Catalyst Financial Group

There are tax issues, legal issues, Centrelink, the Department of Human Services and individual support packages. And when somebody changes something, be it a financial change, it can have implications in a host of other ways that planners and accountants may not necessarily be aware of."

Today, Kathy is involved in a number of voluntary organisations. Not only does she run her own practice in Melbourne, but she is President of her son's School Council at Bulleen Heights School, which is a specialist school for children with autism, and its various fundraising committees. She is also a speaker at community events and conferences, and she specialises in assisting women and families with disabled children.

In addition, Kathy is a director of the Kindred Spirits Foundation, which is a philanthropic trust, where she works on a number of community projects in Victoria, as well as indigenous community projects throughout the Northern Territory, such as the Wadeye Community project.

She credits her involvement with the Kindred Spirits Foundation as a wonderful learning ground for working with not-for-profits and voluntary organisations.

Kathy's involvement and dedication towards all these voluntary community activities, underpinned her winning entry in the 2014 Future2 Community Service of the Year Award (for more information on Kathy's entry, refer to p18-19).

But why dedicate so much time to these pro bono activities?

In answering, Kathy proudly shares her personal mantra that is the anchor for her emotional empathy and ethos: 'You haven't truly lived until you've done something wonderful for someone who can never possibly repay you.'

"It's the enormous self-fulfilment and emotional satisfaction you get when somebody squeezes your hand and truly thanks you for helping them. You know you've made a difference. That's the ultimate self-fulfilment you get."

Work/life balance

With such a frenetic workload and caring for her special needs son, how does Kathy manage her work/life balance?

It's a question that makes her laugh.

"No, there's no yoga or zen meditation," she chuckles. "I stay mentally fit. I do spend a lot of my spare time at home caring for my son, as it's very hard to take him out into the community. It takes both me and my husband to manage him.

"My work/life balance is really an amalgamation of all those things I do. If I have a day off from work, I'll spend half the day working on business plans for Kindred Spirits, or writing up the minutes, agendas or actions for the School Council, or writing grant applications.

"And, yes, there are plenty of times I think about what other ladies might be doing with their spare time, like going for a swim and then catching up for coffee with their friends. But ultimately, it's what I choose to do with my time."

Kathy also attributes balancing her demanding schedule to her pragmatic disposition and having a very structured lifestyle.

"Even at home, my husband who travels a lot for work, and my adult daughter who we sometimes rely on to be a carer for her brother, use a diary with a column for all of us, so we all know what each of us is doing and when," Kathy says. "It's also the same for my team at work, so they know when I'm not available and my general whereabouts."

And, of course, Kathy adds that it's also about being able to prioritise where to spend her time and to properly delegate tasks.

"But as far as my energy goes, I've trained myself over the years to make sure I'm present in the moment, with whoever that might be," she says. "So, it's about fully focusing on the task at hand, whether that be talking to a client or working on one of the school's fundraising committees. It's not about thinking of what I need to do next or what I've got on my agenda for tomorrow.

"I have to consciously do that with my children and all my pro bono work, otherwise the workload will just overwhelm you," Kathy concedes.

Personal development

If pro bono work wasn't fulfilling enough, Kathy also prides herself

"The CFP mark should designate experience and skill, and needs to be upheld as being the highest qualification for our profession."

on the amount of additional self-education she has undertaken over the years, which she still continues to take on today. She is a passionate advocate for continuing education.

She has a Masters of Entrepreneurship and Innovation from Swinburne University, and is a graduate from the Australian Institute of Company Directors. Next on her radar is completion of an indigenous governance course, which she believes will enable her to better engage with and support the various Boards of the indigenous co-operatives that she is involved with.

"Investing in yourself clearly helps you to help others. We should all constantly thirst for new learnings and knowledge – both formal and informal. I just love it."

And what of the CFP® designation?

As a CFP practitioner, Kathy views the CFP mark as one that needs to be earned and be practised.

"I believe the mark clearly identifies us as being professionals," she says. "To qualify for this designation, planners must commit to undertaking many years of study and training, as well as practice to gain the necessary experience.

"The CFP mark should designate experience and skill, and needs to be upheld as being the highest qualification for our profession."

Untapped opportunities

It's not surprising that Kathy believes the greatest challenge currently facing the profession is the negative media coverage of financial planning, and the need for the profession to reverse this perception in the wider community. She agrees that genuine pro bono work will help in this regard.

"This constant negative coverage is not only demoralising for planners but it's detrimental for consumers who have never had a planner before. It's quite disconcerting for them to read about all these scandals about planners, and to hear about another inquiry into the profession."

But in this challenge to change public perception, Kathy believes there are opportunities.

"The bulk of our new clients come from client referrals or seminars, and there is absolutely none of that undertone of mistrust coming from them. So, for somebody who has been referred to us by an existing client, it is easy for them to see the difference that an ethical planner, who is not conflicted and adheres to the highest professional standards, can make to their personal circumstances."

Kathy is enthusiastic in her belief that the ongoing opportunities for the profession are enormous.

"The financial planning opportunities in this country are simply untapped. We've barely scratched the surface. I'm seeing women who are aged between 55 and 60, and who have never had advice to this point. And it's only because they have been referred to a planner from a friend that they're now seeking advice.

"There is just so much opportunity out there for good planners to provide advice and support; to set people up for a comfortable retirement. And that's just the older generation. The number of people in their 40s without a planner is extremely high, so that's another demographic we should be helping."

Advice

So, what advice does Kathy have for any planner considering entering this year's Future2 Community Service Award?

Her advice is straightforward: back-up your application by actively supporting your community.

"You need to actually support the Future2 Foundation, be that through making donations or through your actions by supporting the Foundation, such as by submitting grant applications to the Future2 Make the Difference! Grants.

"I really believe any good relationship is two-way. It's not about me receiving this award and beating my chest about it. It's about what I've given back to Future2 and to disadvantaged Australians in need."

And Kathy doesn't see any of her involvement with pro bono easing anytime soon, although her thoughts suddenly turn to her daughter.

She can't conceal her pride as she talks about her 19-year-old daughter, India-Jade, who is an aspiring singer.

"She will be appearing on the X-Factor, so I need to be there to support her as well," Kathy says. "It looks like I'm going to become a groupie and music manager. Now, all I need to do is fit this into my diary."

It looks like there will be no slowing down of Kathy's frenetic pace.

To Read Kathy Havers' national winning entry, go to p18-19.

Your story Do you have a story to tell? If so, please contact the editor on 02 8484 0906 or at editor@financialplanningmagazine.com.au

Client case studies

The following are the three client case studies Kathy Havers CFP® submitted as part of her national winning entry for the 2014 Future2 Community Service Award. Kathy talks about how she provided her support and assistance to these organisations, and how this had a direct beneficial impact on them.

Bulleen Heights School

I have two children. My son Brady, who is 17, is severely autistic and attends Bulleen Heights School (BHS) – a specialist school for children with autism. I have been on the School Council for eight years and I've been the President for the past three years.

I am actively involved and provide my time on a pro bono basis to attend and manage the School Council meetings, as well as manage the Finance Sub-Committee and the Fundraising Sub-Committee. This involves monthly meetings, minutes and agendas, and wide and varied sub-committee activity throughout the month. All of this is provided in a voluntary capacity.

As a financial planner and graduate from the Australian Institute of Company Directors, I use my financial and governance skills to guide and manage the School Council as a team, and in its capacity, as the key governing body for this special school. As a financial planner, my skills are used each month to assist and manage the significant finances for which the School Council is responsible.

Our fundraising efforts involve my many written submissions, meetings with community leaders, support organisations and other philanthropic trusts. There is also significant collaboration and work being done with the entire school community and school leaders.

In the last 12 months, we also replaced our principal. I was involved in the comprehensive process with the Department of Education to interview new principal candidates, and finally to make a successful recommendation and appointment.

In 2014, we undertook our four year strategic review, which I have also played an active role by representing the 280 families of the school and being responsible for not only input to the strategic plan, but also for the final sign off of the document.

The governance and leadership of the school, via the School Council, is critical to its success, whilst ensuring the focus remains on the successful learning outcomes for our children with autism. The management of the school finances, governance and fundraising are all integral to this success, as it is with being recognised internationally for excellence in specialist school education.

Earlier this year, after two years of active fundraising, we purchased a new mini bus ($55,000) for our students who require safe and secure transport for their critical community access programs and excursions. In the next few months, we hope we will have sufficient funds to replace another tired old bus ($125,000).

These life skills programs are not possible without our own transport which is not funded by the Department of Education. Our children cannot safely access mainstream transport on their own and life skills training is critical to their ability to being able to access their community forever.

AMAZE (Autism Victoria) and families with disabilities

As a financial planner, over time I have focused my business on two distinct client groups – women and families with disabilities, similar to my own circumstances. I believe in integrating all facets of life (playing to your strengths), and my financial planning training and personal life make this an obvious area of expertise on which to focus my work.

As a speaker to AMAZE and families with disabilities, I do not charge for my services. The advice I provide is of a general nature, which is targeted to a community of families that have more lifelong worries and concerns to deal with than the average person.

In August, I spoke at the AMAZE bi-annual conference on the subject of financial and legal strategies for families with disabilities. Due to the positive feedback received, I presented again in September at Autism Victoria to a further group of parents with children like my own. I provided my insights and ideas to help those families navigate the system, which is made all that more difficult and complex when you have a disabled child.

As a follow-up to these pro bono sessions, I also provide a free one-on-one session for up to two hours with any family that wants to discuss their circumstances, challenges and aspirations. At Catalyst, we recognise the ongoing challenges of these families and provide them with a significant reduction in the planning and advice preparation fee if they proceed with a plan.

At a recent seminar, a parent commented to me that despite dealing with Centrelink, accountants, social workers and lawyers, none of them had raised any of the issues and matters that I had covered in my presentation or offered any support whatsoever, despite being aware that she had twins with autism. She was so thankful for the insights I provided.

The intangible benefit of this advice service is being able to navigate the maze of regulations and rules we work with in our financial and legal system, and to enable these special needs families to both grow their wealth in order to provide for their child's future, whilst protecting themselves at the same time.

The positive insights and ideas I provide are the 'sleep easy', 'peace-of-mind' strategies that help to reduce the financial stress and worry for families, which already have a sufficient amount to deal with.

Through trust, understanding and continued guidance, we can move them forward and make a big difference in their lives. This includes accessing more Centrelink benefits, respite care, creating wealth for their disabled child, protecting themselves from health issues, managing the Victorian Civil and Administrative Tribunal's administration reporting and managing estate planning, which becomes more complex when you have a lifelong vulnerable beneficiary.

Kindred Spirits Foundation, Wadeye Community Plum Project and Darwin enterprise

I am a current director of Kindred Spirits Foundation (KSF), a philanthropic trust. The Foundation was established in 2008 and works with community organisations across Australia to support projects, including education and health, in local communities. This includes urban and remote indigenous communities in the Northern Territory.

KSF provides expertise, money, property and other benefits to worthy charities. For more information, go to www.kindredspiritsfoundation.org.au

One project I continue to be actively involved in is the Palngun Wurnangat Women's Association (PWA) in the remote Northern Territory.

In 2013, I assisted with the business negotiation and legal purchase of Kakadu Plum processing plant and intellectual property. We successfully relocated this from Sydney to Wadeye in the Northern Territory.

In early 2014, the KSF Wadeye Community project provided 200 local people with paid jobs picking native plums on their remote country in the Northern Territory. This has provided those 200 indigenous pickers, as well as several others involved in processing, sorting and managing this new enterprise, with jobs and additional income that they would not otherwise have available in their community.

We now see the enormity of the opportunity for this venture to support many remote indigenous communities across the top end of Australia.

As a result, we have developed a plan that will see the plant relocated from Wadeye to Darwin within the next six months, and then for multiple indigenous communities to be involved in picking the Kakadu plum and other native food in season 2015 and beyond.

As the responsible officer for KSF, I provide my financial skills on a 50 per cent pro bono basis to assist manage the compliance and administration for the foundation

When you review our website, you will also see that we are actively involved in the many projects and communities we support. It is not just about the money, it is about using our networks and skills to provide a helping hand for others to reach their dreams.

I continue to provide my consultancy services pro bono to the PWA board and to KSF to actively manage the Wadeye community ventures.

I use my skills as an adviser to head the financial arm of the steering committee to establish a 'for profit' enterprise and a 'not-for-profit' co-op, for the Darwin enterprise that will be owned by the communities involved.

On the 6th October 2014, I conducted a two-day strategic planning event for leaders from Wadeye and the steering committee in the Northern Territory to engage them all and move this project forward. I have also engaged with lawyers and accountants to assist us on a pro bono basis with this business venture.

In 2013, PWA won a Future2 Foundation award and in 2014, I again supported them with a submission for funding, which was successful. My ongoing support to them and their women is through advice to the Board of PWA and also includes developing a micro enterprise model that many indigenous people can use to create their own business ventures in the near future.

The goal of this bigger venture is to create tangible jobs picking fruit, and other native foods, to provide training and opportunities for young indigenous people to work at the plant in Darwin and in their local collection centres. And ultimately, for profit to be returned, via the co-op, to the communities to aid in the enhancement of their people for years to come.

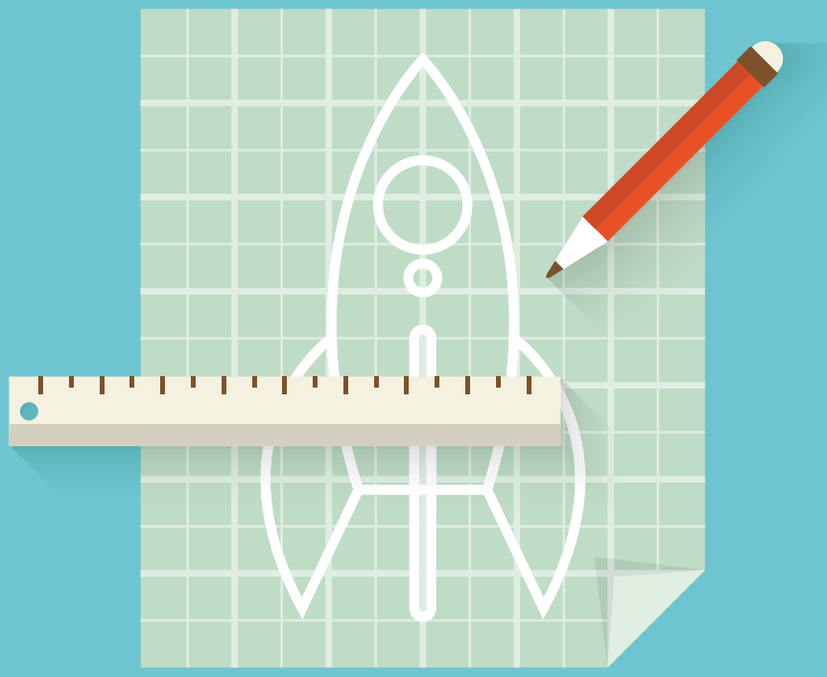
Many micro enterprises will be established in communities where employment is at a national low of less than 20 per cent.

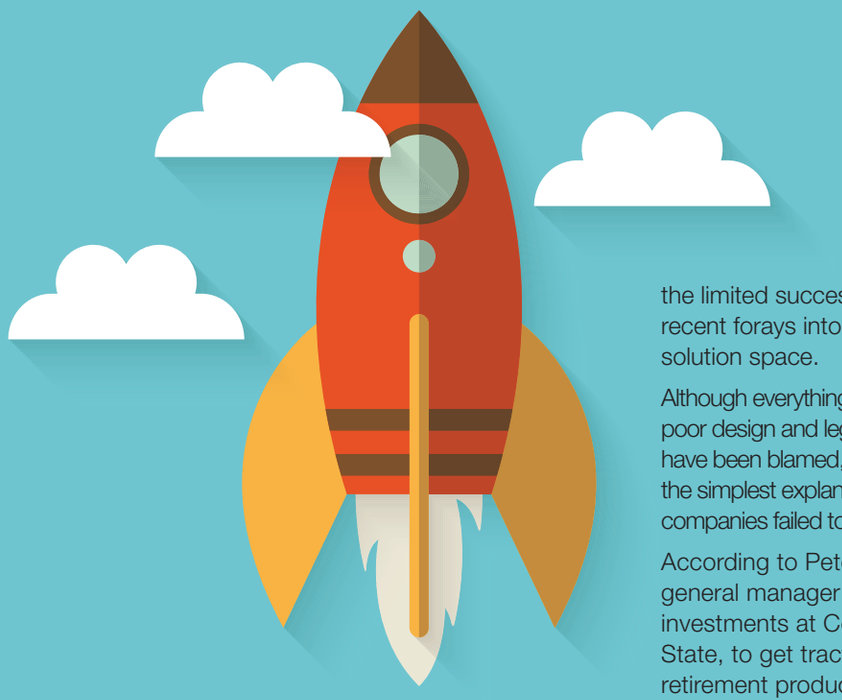
Having 'something worthwhile to do' is so critical for everyone in society and something that everyone should have a means to find. This also reduces the rates of domestic violence, crime and alcoholism, and will be the catalyst to turn this and many other communities around and improve them for future generations.

"Having 'something worthwhile to do' is so critical for everyone in society and something that everyone should have a means to find."

Listen, learn & launch

As Janine Mace discovered, financial planners have become the lynchpin in the future development of retirement income solutions.





If you're a busy planner, it may pay to be careful if you hear someone knocking at your door.

Rather than a potential client looking for help, your visitor is much more likely to be a product manufacturer keen to pick your brain about retirement income products.

As Wade Matterson, principal and senior consultant at global consulting firm Milliman, notes: "There is greater recognition of the need to work with financial planners in developing retirement solutions. Planners are in a really influential position, as providers are more willing to listen and take on board planner feedback."

This interest in listening rather than launching is largely due to the limited success rate of many recent forays into the retirement solution space.

Although everything from timing to poor design and legislative hurdles have been blamed, often it seems the simplest explanation is that many companies failed to ask planners.

According to Peter Chun, general manager product and investments at Colonial First State, to get traction with a retirement product it needs to be "complementary to the advice process", rather than created in an ivory tower. "In the post-retirement phase, financial advice is essential. A 'silver bullet' product is not the right way to go."

Matterson agrees: "People have wanted to rush to the solution, but have not understood financial planning compliance frameworks."

Some solutions have relied on the traditional approach taken in the accumulation phase, he says. "It's a perfectly reasonable approach if the goal is to lock people in and sell products for the long-term. Products have been driven by the solutions framework, not the client."

However, Richard Howes, chief executive of Challenger's life business, believes categorising all retirement products as unpopular is unfair. He points to the record first half sales clocked up by Challenger's annuity business. "Over $600 million in a year is definitely traction in anyone's books. Guaranteed lifetime annuities have done very well and so they should."

Research by Hall & Partners for Challenger even highlights growing awareness among planners and clients. In December 2014, 24 per cent of respondents in the 55-64 age group said they knew 'a fair amount' or 'a lot' about annuities, while 18 months ago the figure was only 17 per cent. In addition, the percentage of respondents saying they were either 'quite likely' or 'very likely' to use annuities lifted from 29 per cent to 50 per cent over the same period.

Limits to success

Despite this awareness, many other retirement products have not sparked interest.

"There has been a general issue with market timing despite the demographic changes. Conditions have not been right to stimulate use of these products as there has been a period of high interest rates, so there has been a viable mechanism to create income. Plummeting interest rates mean this has now changed," Matterson says.

Continued on p22

"Also, post GFC there has been a very intense period of regulatory attention and reform, which has created an environment where it is difficult to innovate."

Howes believes this has had a limited impact. "It is wrong for the industry to say it is about bad timing. There has been a secular change in attitudes to risk since the GFC, big demographic changes and now $70 billion per annum is moving into retirement, so now is definitely the right time for retirement income products to succeed."

He believes there are "clues in the way the industry has been designing products" to explain the disinterest. "Simplicity, transparency and putting the client's interests first will carry the day. The industry more broadly seems to have been structuring products, so fees get paid before the promise gets delivered to the client."

Forgetting the planner

Mark Wills, head of asset allocation for State Street Global Advisors' Asia-Pacific Investor Solutions Group, sheets home much of the blame to leaving planners out of the equation.

"Planner needs not being met has been a key part of previous products not seeing a strong uptake," he says.

This has led to planners cobbling together products to create the retirement solutions they need for clients.

"Planners have had to look at what they have in their tool kit to create income and it meant you had to use different products together," he says.

Howes agrees planners have sometimes been ignored. "Often the role of the planner is overlooked and the development of a perfect product in a product laboratory can ignore the vital role of advice and the way customers think about these issues."

This has seen some manufacturers replicating the IT industry's enthusiasm for exciting products, rather than innovations in response to client needs.

"Some of the product development has been a solution in search of a problem, whereas a better understanding of what customers require results in is a better solution," Howes notes.

Wills admits client needs have not always been top of the agenda. "Often it has been product rather than demand driven. Fund managers can be bad at understanding what planners and clients need, so you need to talk to planners and end investors."

This approach has seen products focus on generating retirement income, rather than solving the multifaceted issues facing retirees. "You need to think about a retirement solution, rather than a product," he says.

Keep it simple

Some manufacturers have also overlooked the changes in client psychology following the GFC.

"Customers are cautious and the industry needs to be careful that it is not seen to be selling snake oil. The industry needs to respect the customer's intelligence and not make promises that are too good to be true. It is better to make modest promises and keep them," Howes says.

Simplicity is one of the keys to success in this market. "Annuities make a simple promise and they deliver on that. They are simple and transparent and that contributes to their success with clients," he adds.

Chun agrees there have been problems with some products. "Generally, products have been complex and hard to explain. They have been too inflexible, so the client requires strong conviction to invest. Also, traditionally, they have been too expensive."

To be more successful, product providers may need to improve their messaging.

"If you look at the Financial System Inquiry report, [David] Murray talks about the need to

Continued on p24

"Planner needs not being met has been a key part of previous products not seeing a strong uptake"

- Mark Wills

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SERIES #09

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communicate with customers about income, not dynamic asset allocation strategies. You need to talk in their language. It's about time the industry focused on appropriate language for talking to clients," Howes says.

"The industry is used to thinking about things it understands and the processes and mechanical aspects, but customers are interested in what level of income can be achieved, so they don't run out of money."

He believes simple terms such as 'income layering' resonate in this space.

"The Age Pension provides protection against poverty and a private pension is an income layer above the Age Pension, with the required income delivered whatever happens in the markets."

From risk profiling to objectives

Another issue has been the use of risk profiling in the retirement phase.

"Risk profiling can have a large disconnect to the objectives clients want in retirement and they may not respond well to market events," Matterson says.

Wills agrees it is not always the best approach for retiree clients. "We struggle with the term 'retirement income', as this means it is not objectives-based. It's all very well to say it is built for the retirement segment, but many products are not as well designed as they could be."

He believes the static asset allocations produced by risk profiles fail to recognise the behavioural issues in retirement. "The industry has built five risk buckets and people go into one of them, but behavioural research shows people change their views all the time," he says.

"The planner's role is to move investors along the risk spectrum as their needs change through retirement. Retirement is a series of trade-offs, continual reassessment and ongoing engagement with providers and clients by planners."

Although planners recognise traditional risk profiling does not cover key retirement issues, such as longevity and sequencing risk, many have been reluctant to move to other approaches.

"Many planners have not wanted to overhaul the basis of their business to fit the product and they have not wanted to work outside their standard business framework or [dealer] compliance framework," Matterson notes.

He believes successful retirement products need to integrate with existing planner frameworks and 'nudge' users in the necessary direction, rather than forcing major changes.

> "Risk profiling can have a large disconnect to the objectives clients want in retirement and they may not respond well to market events."
>
> **- Wade Matterson**

"New product will lean on behavioural approaches and 'nudge principles' to make people move a step at a time," Matterson explains.

"In retirement, you've got two groups involved – planners and clients – who need to move, so you need to figure out the right 'nudges' for both to have products taken up."

Where to now?

Recognition that recent product efforts have not been warmly embraced means manufacturers are going back to the drawing board and rethinking their approach.

"The new way is a bottom-up, not a top-down process. It is a subtle but important difference in approach. We are seeing them say, 'Let's start with the problem and recognise it has multiple dimensions and build a framework around it'," Matterson says.

Chun agrees planners are the lynchpin: "The industry is coming around to how the advice framework works. Increasingly, advice businesses are coming out with an objectives-based framework approach, so having explicit goals will lead providers to change their thinking about retirement income products."

Listening to planners may also provide valuable insights into thorny problems – like longevity risk.

Matterson believes persisting with products that lock-in clients as a way to deal with longevity risk will not succeed. "Longevity is the dominant theme in industry discussions, but behavioural finance research shows people are not interested in investing in things for a benefit, that is a long time in the future."

While some providers have yet to recognise this, planners have known this for years. "They are used to working closely with people and know that circumstances can change over the retirement period and flexibility is important. It is difficult to expect people to lock in at 65 and not change for the rest of their retirement," Matterson says.

Developing products that deliver income, manage all the risks in retirement and match client behaviour is tricky, Wills admits. "The design needs to help solve the conundrum of the level of money you have to live on, how to avoid it being eroded by inflation and having enough money to retire."

Addressing this multifaceted problem is much more complex than creating products for the accumulation phase, he says. "The end investor goals are very different to the accumulation phase."

Supporting planners

To be successful in the future, it seems retirement products will need to be advice rather than product-led, and aligned to the evolving framework within modern advice businesses.

According to Chun, planners are keen to get help in dealing with the various risks inherent in retirement portfolios. "They need tools for management and mitigation of both longevity and investment risk."

This focus largely reflects common usage of a 'bucket strategy' to generate retirement income, Matterson explains. "Buckets make sense, but they don't really deal with the risk aspect."

He believes rather than expecting planners to give away this approach, providers need to encourage them to add 'buckets' to deal with longevity and sequencing risks. "This is an expansion of an existing approach and is easier for planners to adopt."

In Chun's view, the answer is not trying to create a single product 'solution', but rather providing planners with a suite of tools they can use with retiree clients. This is reflected by Colonial's decision to place annuities from both Challenger and CommInsure on-platform to complement existing account-based pension products.

"We expect to see increased take-up of annuities, as these products help planners manage both investment risk and longevity risk," he says.

Matterson believes the final shape of the market is yet to emerge and planners will have many more options from which to select. "Things are moving along and there won't be one solution going forward, but we will see lots of people trying to develop solutions and innovate."

The value of strategic advice

How important are investment costs in the context of total wealth creation, asks Ron Malhotra AFP®.

Lately, everywhere you look there is talk of self-service portfolio construction tools, investors being able to build well-diversified investment portfolios without much human intervention, and the role of the financial planner becoming obsolete due to technological developments.

Some of these innovative product and service models claim their effectiveness through cost reduction, in addition to simplicity of use, heedlessly implying that cost reduction alone can lead to superior outcomes for investors. Some of these models can encourage people to become DIY investors and inadvertently undermine the role of planning and strategies towards broader wealth creation.

Investment outperformance, whilst being a worthwhile endeavour for any investor, should not be considered a self-sufficing goal in itself. Creating enough wealth and assets that provide the required level of income to sustain living expenses for when the ability to earn a linear income becomes extinct, should absolutely be a financial objective that every investor strives for.

Therefore, it is important that investment performance not be considered outside the context of, and in isolation, from wealth creation objectives. This is where the business and product models being advocated by the self-service proponents of DIY portfolio construction tools, are deficient and their associated implied claims of investment performance resulting in total wealth creation is suppositious.

It is absolutely true that excessive and unnecessary platform and product fees (whether active management or not) can erode returns. However, the notion that fees are the overwhelming driver of investment performance (and therefore total wealth creation) will depend on whether the planner is adding additional value through strategies that enhance returns and go beyond fund/product selection.

Strategies such as dollar cost averaging, increasing exposure to quality assets, instalment gearing (where appropriate), re-balancing, buying during market downturns, debt recycling and staying the course, are areas where planners can add significant value.

For those planners who do not add strategic value through the adoption of these and other strategies, product selection becomes paramount and it makes it increasingly difficult for those planners to justify platform, fund or active management fees and unquestionably, planner fee in the context of value creation.

The concept that investors can create wealth through product selection alone, without the strategic input and counsel of a competent financial planner, is utter nonsense, as not only does it largely ignore strategy adoption but it also fails to account for some of the biggest determinants of successful investing – discipline and behavioural aspects, and counter-balancing the common biases that exist in most investors' minds.

What is the point of investment performance (regardless of whether the investment performance is achieved through outperforming a benchmark or reducing the cost of investing) if the client does not meet their objectives of having enough income to last a lifetime or another worthwhile stated goal?

The issue is that claims being made by the innovators of new portfolio construction tools sometimes only provide a unilateral view by relating investment performance to product selection only. The returns do not just come through selecting products – whether they are index or active.

Their claims neglect to highlight the broader strategic value provided by financial planners, in regards to investment outcomes through the application of strategic advice and behaviour modification around dissuasion from the common psychological biases, such as over confidence, basing decisions on familiar or recent events and loss aversion.

Plus, the talk about returns on a particular investment or a portfolio is largely irrelevant if a client still does not achieve their objective despite reduced fees on a fund.

Don't get me wrong, I am personally all for passive investing and anything that reduces investment costs. However, I will only consider myself successful as a planner if a client achieves their financial objectives through my advice or I can help them reduce the gap between their current situation and their financial destination, as opposed to simply saving them on a fund cost (which I would do anyway).

Investors or planners picking product or portfolio solutions without the incorporation of strategic advice, is really no different to selecting ingredients without a recipe.

Anyone can buy a property, shares or construct a portfolio, but very few achieve the rare goal of producing enough assets that produces an income that lasts an entire lifetime.

Product shortcomings and their criticism should not be used to undermine the value of strategic advice and competent financial planning, which subsumes the importance of emotions and strategies when it comes to successful wealth creation.

Ron Malhotra AFP® is the Managing Director and Wealth Planner of Maple Tree Wealth Management.

"I will only consider myself successful as a planner if a client achieves their financial objectives through my advice or I can help them reduce the gap between their current situation and their financial destination..."

- Ron Malhotra

Videos and 5 tips for growth

Geoff Anderson shares his five tips on how to build your business by using videos.

Financial planners have the challenge of needing people to trust them with their finances and aspirations, and in particular, building trust online can take time and patience. A short cut to create this all important trust is to use video clips on your online platforms. This will show your clients that you have the expertise and values they are looking for.

Financial planners are increasingly discovering that video is an effective way to connect with clients – prior to even meeting them.

In addition to Google loving websites which have video content, there are many additional reasons why and how you can use video to drive clients to your business. These include:

1. Building rapport

Videos give people a sample of who you are and your personality. Ultimately, clients are buying you, so they want to know who you really are – not just your CV, but who you are as a person.

An effective way to use video is to explain why you do what you do and why you help people get their finances together. Ideally, this is where you reveal your story about how you became a financial planner and why your chosen profession is so important to you.

2. Build expertise

Perhaps you're not the best financial planner in the world, but you can be the best financial planner in your client's world. Remember, you have unique experiences, wisdom, as well as your personal supporting processes and systems.

Sharing this expertise in a 1-2 minute video clip will assist in positioning you as an expert and keep your audience engaged.

Don't be too overly concerned about sharing your intellectual property. If you are clear and transparent, people will be able to see that you know what you are doing. Ensuring that your website contains useful and valuable information, will attract more visitors and make the conversion process easier.

3. Build trust

While an introductory video will give people a feel for who you are, providing testimonials is a valuable way to confirm that you deliver what you say you do and create reassurances from previous clients that you are as good as you look! Written testimonials are useful but if you really want to impress, create a video of someone whose financial situation has been transformed, thanks to the guiding hand of their financial planner.

4. Build engagement

We all love a good story, so why not create a case study video? They are very watchable because we get to discover the journey and the outcome of a happy client.

In my book, *Shoot Me Now,* I have dedicated an entire section on case studies, as I believe they are such a powerful asset to any business owner. Try following this simple format below to create a case study video for your website:

What was happening before you engaged your current financial planner? What was your life like? What was your future looking like?

What happened during the financial planning process? What was the service like? What is your life/financial situation like now? How do you feel now?

5. Build credibility

This last point touches on the quality of your videos. While it is possible to shoot a video with a smartphone, you do run the risk of making your videos look amateurish and this can do damage to your brand and message.

So, when making videos that connect with your clients, be careful to ensure the quality reflects the standard of your brand and clients. Make sure you do your research or when possible, work with a professional.

Geoff Anderson is owner of Sonic Sight, a corporate video production company. He presents on using video in business and is the author of Shoot Me Now – Making videos to boost business. To learn about the 5 Mistakes to avoid when making videos, visit www.sonicsight.com.au

"An effective way to use video is to explain why you do what you do and why you help people get their finances together."

RACHEL LEONG
BT

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Using insurance inside super to equalise the estate**
- **Linked cover**
- **Term life inside super**

Building on the basics of term life insurance

Term life cover is the simplest to understand and least expensive type of life insurance. In the event of death or terminal illness – as long as the policy remains in force, the cause of death is valid, and there are no issues with non-disclosure – it is a certainty that a claim will be paid.

It's not surprising then, that some advisers can fall into the trap of taking a quite simplistic view of term life recommendations. In fact, there are many factors to consider when calculating the sum insured, as well as selecting the appropriate product. It's important to get the basics right first, and then delve more deeply to uncover what clients really need.

Covering the basics

Advisers vary in what elements they include when calculating the insurance amount. However, most advisers consider:

- funeral and other final expenses;
- debt;
- lost future income;
- increased or decreased future expenses;
- liquid assets; and
- existing cover.

Usually, the sum insured is calculated, so that upon the client's death; there is little or no financial disruption to the household. Total need is demonstrated by breaking it down into each component.

Funeral and other final expenses

Funeral and other final expenses should be the first items to be included in the sum insured to help cover immediate expenses following the client's death. Proceeds can be used to cover expenses such as funeral costs, medical bills, utility bills, and/or legal fees.

Debt

While the payment of personal debt is something we automatically think of, there are some additional costs that should also be considered. For example, if a mortgage is on a fixed rate, there will be break costs associated with paying out the loan earlier than the fixed rate term. This is because the fixed rate is based on the borrower making payments over the term and any reduction in that term (due to early repayment) needs to be accounted for. This may result in a large cost that needs to be paid, together with the remaining mortgage balance, to eliminate the debt.

Where the household also has investment debt, investigate whether this debt could continue to be serviced in the event of death. If it is already cash-flow positive, in that the earnings cover the repayments, there may be no need to include this debt in calculations. However, even in this circumstance, it is also important to ascertain whether the investments would be retained, as one partner may be a much more active and willing investor than the other.

Lost future income

An appropriate way to determine the client's lost future income is by calculating a present value of each future year's income, taking into account a net investment return. The assumption of a net investment return allows the sum insured to be reduced, as any term life proceeds are likely to be invested and will therefore generate compounded returns over time.

The lost amount of each future year's income is the client's salary, after tax has been deducted. This is because the after-tax amount is what is used by the household to meet ongoing expenses, and term life proceeds will generally not be subject to any tax. This is on the basis that the policy is outside super; or if owned through super, the beneficiary is a tax dependent.

Often advisers ignore the large potential salary increases that a younger client has compared to a client with an established career, whose salary may only increase by the Consumer Price Index (CPI). Allowing for larger salary increases for younger clients may be more reflective of the true amount of lost future income. In addition,

there may be variation in income growth throughout a particular client's working life. Calculators will generally not allow for such variation, but an approximation can be calculated by using a suitable average rate of income growth, over the remaining working life of the client.

Superannuation contributions can also be included in the yearly figure, as these will be lost along with salary, if the client dies before retirement. The client's superannuation savings (and loss of them) have a significant effect on the household and determine the retirement age of a remaining working spouse, or the ability of a non-working spouse to continue their current lifestyle after the client's proposed retirement age.

The fact that the client's situation will change in the future is also often overlooked. For example, a parent who has been the home-maker for several years, may originally have plans to return to work. If that parent were to suffer from an early death, this would not only increase household costs (to hire a nanny and housekeeper), but future income would also be lost.

Increased or decreased future expenses

Education expenses

Child-related costs, such as education, can be substantial and may continue when children are well into their twenties.

When the kids are young, they are fairly inexpensive but can become progressively costlier over time, especially if parents want to educate them through a private school. Private schooling can cost as much as $30,000[1] per annum for tuition fees alone. This does not include the cost of transport, uniforms, computers, excursions or sports trips.

The national average for all private schooling costs from pre-school through to year 12 is approaching the $500,000 mark, with the NSW urban average close to $550,000[1].

Further, it is considered almost mandatory these days for young adults to acquire a degree to have any chance of obtaining a job in a competitive environment. Additionally, many job seekers are armed with at least one undergraduate and often a post-graduate degree.

We are currently in a political environment where the level of university fees is uncertain. If deregulation of the university system occurs in the near future, the total cost to each student could be as high as $100,000 to obtain a degree[2].

While these figures may be part of a propaganda campaign by opposition parties and have now been dismissed as misleading, we cannot ignore the fact that the costs of university degrees may increase substantially, if legislation is passed.

While the Federal Government's bid to force students to pay a higher share of their education costs was defeated in the Senate on 2 December 2014, a new bill was introduced to the House of Representatives the next day. The Government has vowed to push ahead when parliament resumes in February.

Paying off debt

If insurance proceeds are used to extinguish debt, then it is no longer required to be serviced and hence income is not required to support it. Therefore, the lost future income component should be revised down, if debt will be paid off.

Liquid assets

Assets such as shares and super are often deducted from the sum insured calculation. This is on the assumption that if the client dies before retirement, then these assets could be sold, thus reducing the need for a higher sum insured.

If term life proceeds are paid and shares and superannuation still represent a large portion of the estate, beneficiaries may be forced to sell these assets during a market downturn. To allow more time to ensure a reasonable sale price, the sum insured could be increased.

Assets passed to beneficiaries do not incur capital gains tax (CGT) at the time they are transferred from the estate, however, if they are later sold, CGT may apply. Therefore, the sum insured can be increased to allow for any additional tax.

Existing cover

If the client has existing term life cover, a simple reduction in the amount of proposed term life cover is the usual course of action. However, if existing term life cover is offered on a unitised basis through superannuation group insurance (eg, industry super funds), this sum insured will reduce over time.

Advisers need to have an awareness of this and should also consider whether the existing product is appropriate for the needs and objectives of their particular client. There are also other limitations to keep in mind with group insurance, such as possible pre-existing condition exclusions and cancellable cover.

Some group insurance policies will deny a claim if the client dies within a certain time period (or sometimes the life of the policy) if the medical condition that resulted in the client's death existed before the commencement of cover. Retail individual insurance, by contrast, will put the client through underwriting and any pre-existing conditions that will not be covered are specifically excluded and agreed to with the client at policy commencement.

Retail insurance is also offered on a guaranteed renewable basis, which means the contract is automatically renewed every year regardless of changes in employment, past times or health. On the other hand, group insurance cover is often cancellable for any number of reasons, including ceasing employment with a particular employer.

The benefit of a guaranteed renewable contract becomes more apparent for ageing clients, or those in hazardous occupations who may have difficulty finding replacement cover.

Therefore, consideration should be given to whether existing group insurance cover through super is

Continued on p32

appropriate. If so, the proposed cover can be recommended in addition to existing cover. If not, a retail policy may be the best solution for the client's total needs.

The basics

It is at this point where advisers may conclude their investigation/discussion and calculate a sum insured based on elementary information only. However, there are further points to consider before making a final recommendation, such as:

- linked cover;
- spousal support;
- fulfilling the bucket list;
- estate equalisation; and
- tax.

Linked cover
Linked cover costs less than stand-alone cover, as the sum for all linked policies reduces when a claim is made on one of them. Therefore, it is frequently recommended and obtained. Some insurers also offer flexible linking, which allows policies inside super to be linked with policies outside super.

One consideration for linked policies is whether cover for each policy is for the same or a different purpose, and therefore, whether a buy-back option should be used. For example, debt may not be covered in a trauma sum insured, as it is assumed that the client will be capable of returning to work. If this is the case, advisers would normally include the debt in the term life sum insured and reinstate cover 12 months after a trauma claim, through the buy-back option.

On the other hand, if debt is already included in the total permanent disability (TPD) sum insured, it may not be necessary to reinstate the entire amount of term life cover, as debt has already been extinguished.

Approximately 50 per cent of insurers offer life cover buy-back after a living/trauma claim as an additional option, rather than as a built-in benefit. Whereas life cover buy-back after a TPD claim is more frequently an optional benefit. Therefore, it is important to have an awareness of which policies offer what, if it is required.

There is still the risk that the client may die within the first 12 months with single buy-back options, before term life cover is reinstated. This can be addressed through double buy-back options, which can reinstate life cover almost immediately, and also waive the applicable premiums (usually for the life of the policy). However, this of course comes at greater cost (overall, higher than stand-alone cover).

Spousal support
If a terminal illness diagnosis is made, clients may need the support of their spouse or a carer beyond the first few weeks of shock. If they are unable to care for themselves, they may also require a carer. While there is always the option of hiring a carer, it is often the spouse who volunteers, as they can provide emotional, as well as physical support. It may also provide some comfort to the spouse to be able to care for their loved one in their last days.

To facilitate this, the client's term life sum insured can be increased to allow for compensation for the loss in spouse's income for one year or longer. As terminal illness payments are generally not subject to tax (whether inside or outside super), the spouse's after-tax income over this time period is the amount required, rather than their gross income.

Fulfilling the bucket list
While a terminal illness diagnosis is something that no one wants to receive, it can prompt clients to consider fulfilling their bucket list, provided they are well enough to do so. This may include international holidays, a permanent change of scenery (sea or tree change), or the purchase of something special they always wanted, such as a sports car or speed boat. These items are expensive and not usually attainable through normal means. However, if they are included in the term life sum insured, terminal illness proceeds can help create lasting memories for the entire family.

Estate equalisation
If the client has a lumpy asset that represents a significant proportion of the estate (such as a business or property), this asset may need to be sold to enable equal distribution to beneficiaries. To avoid this, an appropriate increase to the sum insured allows beneficiaries to receive estate distributions that are equal

Case study: Using insurance inside super to equalise the estate

Michelle has two adult children – Richard and Peter. Richard works closely with her and will inherit the business when Michelle passes away. Her estate is comprised of the business, valued at $500,000, and $200,000 of other assets that will pass to Peter. It is assumed that Peter will retain any assets he receives from the estate.

To equalise estate distributions, net proceeds of $300,000 are required to ensure that both Richard and Peter receive assets valued at $500,000 each. Michelle's financial adviser recommends that a term life policy is obtained and owned inside super. Therefore, to ensure net proceeds to Peter are $300,000, it is necessary to determine the required sum insured.

The higher sum insured is calculated based on:

- Michelle's birth date of 1 Jan 1960.
- Michelle's eligible service date (ESD) of 1 Jan 1995 (total days of 10,958).
- the assumption that the date of death is 1 Jan 2015 (service days of 7,313).

The taxable (taxed) component is calculated as the grossed-up sum insured multiplied by the service days, divided by the total days.

Where service days are the number of days between the ESD and date of death, and total days are the number of days between the ESD and retirement date (age 65 in this case), the calculation is $384,565 x 7,313 / 10,958 = $256,640.

Therefore, tax on the taxable (taxed) component is calculated as $256,640 x 17% = $43,629.

The taxable (untaxed) component is calculated as $384,565 - $256,640 = $127,925.

Tax on the taxable (untaxed) component is calculated as $127,925 x 32% = $40,936.

There is no tax-free component.

Therefore, once total tax of $84,565 is deducted from the grossed-up sum insured of $384,565, net proceeds of $300,000 will be paid to Peter, equalising the estate.

or fair. This may also reduce the likelihood of challenges to the Will if beneficiaries feel they have received an equitable amount.

Tax
It is a very unusual situation where term life proceeds are subject to CGT tax when owned outside super. This would only be the case if the proceeds are paid to someone other than the original owner and the policy was transferred for some consideration. Given there is no need to pay for a policy to be transferred (insurers normally cancel and reissue), it is highly unlikely that CGT will apply to ordinary term life proceeds. This CGT rule is relevant for policies with an investment component/ surrender value, i.e. whole of life and endowment policies, which are legacy products and therefore, far less common than current term life products.

Term life inside super
If the decision is made to own term life insurance inside super, then there will be tax payable if the death benefit is paid to a non-tax dependant. The sum insured could be grossed-up to ensure the net amount is enough for its intended purpose, however, this is not a matter of simply increasing the original sum insured by the amount of tax payable on that amount. This is because any increase to the sum insured will have the flow-on effect of increasing the tax liability as well, i.e. the calculation is circular. Therefore, calculators are very useful in determining the grossed-up sum insured.

The grossed-up sum insured and tax calculations assume the date of death is today. However, the actual amount of tax payable will decrease over time and depends on the date of death. This results in a higher net amount payable over time than what is calculated.

The case study on p30 uses a calculator to determine the grossed-up sum insured and assumes that the date of death is today.

Conclusion

It is evident that risk advisers follow their own convention when deriving the term life sum insured for clients. However, to ensure consistency and completeness, general principles should apply for all clients and all advisers. These principles should ensure that basic components, such as final expenses, debt, lost future income and future expense changes, are included. It's also important to remember that further refinements to the final recommendation can be made to allow for client preference and insurance structure, to ensure the client's needs and objectives are wholly satisfied.

In the end, advisers' recommendations are only as good as their understanding of their clients' situation. In any conversation about life insurance, it's worthwhile to keep in mind these three points:

1. **Ask questions instead of making statements.** Not only will you learn more information, the client will be more engaged. In most cases, people's natural reaction is to try and answer questions. For example, instead of stating how important it is to have life insurance, you could ask, "How long would your family be able to maintain their current lifestyle without your income?"
2. **Taking a softer approach can draw information from clients more effectively.** For example, instead of asking, "What would you do if your income were to stop?", a less forward approach is, "Have you reviewed your personal risk needs recently to ensure your cover is adequate and up-to-date?"
3. **Seek expert advice if you don't know the answers to technical questions.** Insurance is a specialised area and referring a client to an expert can be as simple as stating as much: "Risk management advice is specialised and I want to ensure you receive the best advice from our risk specialist. When can you to come in and meet with her?"

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QUESTIONS

1. When calculating an amount that replaces lost future income, the following could be considered:

a. A higher assumed income growth rate for younger clients.

b. A homemaker's future return to work.

c. Use of insurance proceeds to extinguish debt.

d. All of the above.

2. If term life insurance is held inside super, what are the tax implications?

a. Tax will apply to the death benefit in all cases.

b. Tax will apply if the death benefit is paid to a non-dependent adult child.

c. Tax will apply if the death benefit is paid to a child of any age.

d. Tax will not apply if the deceased is age 60 or older.

3. The benefits of using term life insurance for estate equalisation purposes are:

a. lumpy assets do not need to be sold.

b. beneficiaries receive a fair proportion of the estate, thus reducing challenges to the Will.

c. both of the above.

d. none of the above.

4. If it is the client's preference that their spouse cares for them upon a terminal illness diagnosis, an appropriate increase to the client's term life sum insured would be:

a. the net amount of the spouse's salary for one year or more.

b. the gross amount of the spouse's salary for one year or more.

c. the net amount of the client's salary for one year or more.

d. the gross amount of the client's salary for one year or more.

Footnotes

1. *Australian education costs revealed – Australian Scholarships Group survey 2014.*
2. *'Higher education mustn't mean a second mortgage', Herald Sun article, Issue 23 June 2014.*

The SMSF investment strategy and insurance considerations

ANNA MIRZOYAN
FIDUCIAN PORTFOLIO SERVICES

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Insurance inside and outside an SMSF**
- **Tax and payment options**
- **Cross ownership arrangements**

A recently prepared report by the Australian Taxation Office (ATO), the *Quarterly SMSF Statistical Report for June 2014*, which was released in September 2014, indicated that the number of self-managed superannuation funds (SMSFs) continues to steadily increase. According to the report, there were more than 534,000 SMSFs registered in Australia at the end of June 2014, with total assets of approximately $557 billion, an increase of 6 per cent and 12.5 per cent respectively since June 2013.

The dominating reasons to establish a SMSF are related to investment issues, those being: greater control, flexibility and a belief of being able to perform better.

The SMSF investment rules can be quite complex, especially where they involve related party transactions, limited recourse borrowing arrangements, or other non-standard assets. Given the complexity that is often associated with these types of assets, it is important for the SMSF to have a clear and well documented investment strategy.

The SMSF investment strategy

The SMSF investment strategy sets out a plan for the trustee to achieve the fund's investment objective and provides the trustee with the framework for making investment decisions to increase member benefits for their retirement. Although there is no prescribed format for an SMSF investment strategy, it must reflect the purpose and circumstances of the fund and its members.

When preparing an investment strategy for the SMSF, the trustee must consider the following:

- Diversification (ensuring the fund is adequately diversified to help manage the risks and returns);
- The risk and likely return from investments to maximise members' returns (be able to identify the likely returns from investments and manage the risks associated with investments);
- The liquidity of the fund assets (have the capacity to pay fund expenses);
- The fund's ability to pay benefits when members retire;
- Each member's needs and personal circumstances (age, retirement age);
- The need for personal risk insurance for each member.

The trustee should be able to clearly demonstrate that the fund has an investment strategy which is generally best done by way of documentation. Where this cannot be demonstrated then it is most likely this will not adequately satisfy the requirements of superannuation law, the fund auditor or the ATO as the regulator of SMSFs.

The investment strategy should not be a static document. It should be regularly reviewed and updated for its ongoing appropriateness, especially if a new investment type is being considered, a specific strategy is being implemented, contribution levels change, a benefit or income stream is paid, or the membership profile changes.

Investment universe

Superannuation law does not specifically prescribe a list of assets a fund can invest in, rather, it requires investments are maintained. This is for the sole purpose of providing members with a retirement benefit and ensuring that all dealings are made and maintained on an arm's length basis. In addition, there are a number of investment prohibitions including:

- A fund must not lend money or provide financial assistance to a member or a relative of a member.
- Assets must not be intentionally acquired from a member of the fund or a related party unless an exception applies.
- The fund must not borrow except in limited situations. For example, there are prescribed rules which permit: temporary borrowings in order to pay beneficiaries, to cover the settlement of a transaction and to borrow to purchase a single acquirable asset that is to be held in a separate trust.
- Not more than 5 per cent of the total assets of the fund can be invested in an in-house asset, where an in-house asset can

be broadly defined as a loan to, an investment in, or a lease to, a related party (including related trust).The 5 per cent test is measured when an investment is initially purchased and then annually at 30 June. In cases where the asset being acquired causes the fund to breach the 5 per cent in-house asset limit, it cannot be acquired. Whereas if the fund breaches the 5 per cent limit as at the 30 June review, a strategy to reduce the level of in-house assets to below 5 per cent within 12 months must be implemented.

- Ensure any collectables and personal use assets purchased after 30 June 2011 are insured in the name of the SMSF within seven days of being acquired and cannot be leased or used by a related party. The asset must be stored and the decision on where the item is stored must be documented in a manner where it is not being displayed or stored at the personal residence of a related party. A written record of this document must be kept for at least 10 years. When the asset is sold, it must be valued by a qualified independent valuer if sold to a related party. In cases where the collectables or personal use assets were purchased before 1 July 2011, the fund has until 1 July 2016 to comply with the new rules. Therefore, a review of the investment strategy of the fund will most likely be required to ensure the new rules can be met.

Insurance considerations

Personal risk insurance is fundamental to protecting a person's wealth, their ongoing ability to maintain a wealth creation strategy, and to help protect and maintain a certain standard of life should an insurable event occur.

When considering personal insurance for SMSF members, the trustee is often faced with a decision whether to obtain these insurance policies inside or outside of superannuation. There are advantages and disadvantages that need to be considered when determining whether to take personal insurance inside or outside of superannuation.

Some of the advantages associated with holding insurance within superannuation are:

- In some cases, a lower net cost, as insurance premiums for Life, Total and Permanent Disablement and Income Protection are tax deductible to the trustee as long as they are used to pay out a superannuation death benefit, terminal illness benefit, a disability benefit or a temporary incapacity benefit.
- Pre-tax contributions (salary sacrifice and personal deductible) can be used to cover premiums and where eligible, the member qualifies for the Low Income Superannuation Contribution of up to $500.
- Accumulated superannuation money, along with compulsory superannuation guarantee amounts, can be used to help cover any insurance premiums, reducing the impact on the member's personal cash flow.
- Non-concessional contributions can be made to super to cover insurance premiums and where eligible, the member qualifies for the Government co-contribution of up to $500.
- Using a spouse superannuation splitting strategy (split up to 85 per cent of the concessional contributions made in the previous financial year) to help pay the insurance premiums for the member's spouse.

Some of the disadvantages associated with holding insurance within superannuation are:

- Not all types of personal insurance satisfy a condition of release allowing a benefit to be paid to the member. For example, Trauma cover or an own occupation TPD cover may not satisfy a condition of release.
- Policies generally come with less 'bells and whistles' due to the legislative requirements.
- Superannuation rules limit who can receive the death benefit payment in the event of a member's death. This, combined with the need to ensure all members have a valid binding nomination in place to avoid trustee discretion being exercised, may mean that the Term Life proceeds are not paid to the intended person.
- Superannuation savings will be reduced by premiums where additional contributions are not made. And more importantly, where contributions are made, care must be exercised to ensure contribution caps are not exceeded.
- TPD proceeds and death benefits (in certain cases) are taxable when received as a superannuation death benefit payment instead of being able to be received tax-free if held outside of superannuation.

Tax and payment options

Another key consideration is ensuring the right person can benefit from any insurance proceeds and extra tax is not being paid unnecessarily.

In general, where insurance is held outside of superannuation, the policy holder, not the insured, nominates the beneficiary (the person who will benefit from any insurance payment). In cases where no beneficiary is nominated, insurance proceeds are generally paid to the policy holder or their estate in relation to a Term Life policy. From a tax perspective, where the person receiving the payment is the insured, or a defined relative of the insured, then proceeds for Life and TPD are paid tax-free, whereas any Income Protection policy proceeds are taxed at the member's marginal tax rate.

Where insurance is held in superannuation, the policy owner is the trustee, with the member being the insured. The superannuation law and the fund's trust deed determine who can receive the insurance proceeds, how the payment can be made (lump sum or an income stream), and what tax rate is applied to insurance proceeds. This is explained further in the following section.

The premiums of Term Life, TPD and Income Protection insurance held in superannuation are deductible to the trustee.

Temporary incapacity or salary continuance

When a salary continuance policy is held within superannuation, any benefits are paid to the member and taxed at their marginal tax rate. From a condition of release perspective, it is important to

Continued on p36

Table 1: Death Benefit Payment Options		
	Lump Sum	**Income Stream**
Spouse (including same-sex and de facto, but not a former spouse)	Yes	Yes
Child under age 18 (including an ex-nuptial, adopted or step-child of the person or their spouse)	Yes	Yes
Child over age 18 and financially independent	Yes	No
Child over age 18 but under 25, financially dependent	Yes	Yes
Disabled child* (no age restrictions)	Yes	Yes
Person with whom an interdependent relationship existed	Yes	Yes
Financially dependant person at time of death	Yes	Yes
Legal personal representative	Yes	No
** The disability referred to above is a total and permanent disability described in subsection 8(1) of the Disability Services Act 1986.*		

note that Schedule 1 of the SIS Regulations limits the amount a member can receive to an amount not more than their pre-disability income. Therefore, in cases where the temporary incapacity benefit would exceed the member's pre-disability income, this may impact the deductibility of the insurance premiums and potentially the amount that can be paid.

Term Life

In situations where Term Life insurance is held within superannuation, on the death of a member, the benefit must be cashed as soon as practical (SIS Regulation 6.21). Generally, the amount must be paid to a Superannuation (SIS) dependant or to the member's legal personal representative.

A superannuation death benefit can only be paid as an income stream when being paid to a defined dependant. In all other cases, the benefit must be paid as a lump sum only. Table 1 summarises the available payment options for superannuation death benefits.

The death of a superannuation fund member is a compulsory cashing event for a superannuation trustee (SIS Regulation 6.21). As such, the regulation does not permit a death benefit to be rolled over to a beneficiary's superannuation account in order to be retained in the superannuation environment. Therefore, unless the superannuation death benefit is being paid to an eligible SIS dependant as an income stream, the payment must leave the superannuation environment.

From a tax perspective, the amount of tax payable depends on whether the person is defined to be a Death Benefits Dependant for tax purposes (ITAA s302-195). Tables 2 and 3 summarise the tax payable when the death benefit is being paid as an income stream and when it's being paid as a lump sum.

Table 2: Superannuation death benefit is paid as an income stream		
	Superannuation Component	**Tax Payable**
If deceased or beneficiary aged 60 or over	Tax-free	Tax-free
	Taxable (Taxed)	Tax-free
	Taxable (Untaxed)	Taxed at MTR*, 10% offset
If deceased and beneficiary under age 60	Tax-free	Tax-free
	Taxable (Taxed)	Taxed at MTR*, 15% offset
	Taxable (Untaxed)	Taxed at MTR*
** Plus Medicare Levy*		

Table 3: Superannuation death benefit is paid as a lump sum		
Superannuation Component	**Death Benefits Dependant**	**Not a Death Benefits Dependant**
Tax-free	Tax-free	Tax-free
Taxable (Taxed)	Tax-free	Taxed at a maximum of 15%*
Taxable (Untaxed)	Tax-free	Taxed at a maximum of 30%*
** Plus Medicare Levy*		

Total and Permanent Disablement

From 1 July 2014, super fund trustees (including SMSF trustees) have been restricted to only offering insurance contracts where a 'condition of release' is available to the member upon a successful claim.

This means that since 1 July 2014, superannuation fund trustees have only been able to acquire insurance contracts providing cover for death and terminal medical conditions (Term Life), permanent incapacity (any

Table 4		
Age	**Lump Sum**	**Income Stream**
Below age 55	Taxable component is taxed at up to 20%*.	MTR with a 15% tax offset.
Age 55 to age 59	Taxable component is taxed at 0% up to the low rate cap of $185,000 (indexed). Amounts over the low rate cap are taxed at up to 15%*.	MTR with a 15% tax offset.
Aged 60 and over	Tax-free (non-assessable, non-exempt income).	Tax-free (non-assessable, non-exempt income).
** Plus Medicare Levy*		

occupation TPD) and temporary incapacity (salary continuance). New Trauma and own occupation TPD contracts can no longer be acquired within superannuation.

Existing insurance contracts acquired before 1 July 2014 are grandfathered. Members who purchased an insurance contract before 1 July 2014 are able to increase or decrease their existing cover, however, a lapse in insurance cover or a rollover of superannuation benefits will result in losing the exemption.

Where a member becomes entitled to a TPD benefit, the amount can generally be paid as a lump-sum and/or an income stream, and the benefit payment is generally subject to tax. The amount of tax payable is related to the fund's eligible service date, date of disablement, and the number of years remaining to age 65.

The longer the period from date of disablement to age 65 (future service period, in comparison to the number of service days), the greater the tax-free component of the TPD benefit is.

The existing tax-free amount in the superannuation account is increased by the amount calculated as follows:

$$\text{Amount of benefit} \times \frac{\text{days to retirement}}{(\text{service days} + \text{days to retirement})}$$

Where:

- 'Days to retirement' is the number of days from the day on which the person stopped being capable of being gainfully employed to their last retirement date (i.e. age 65).
- 'Service days' is the number of days in the service period for the lump sum.

Where the benefit is payable, the tax-free component is paid tax-free. The balance of the benefit payment forms a part of the taxable component and is taxed based on the member's age, as explained in Table 4.

Financial planning points

- When replacing insurance policies held outside of superannuation with insurance within the SMSF, the member must cancel the current policy and apply for a new insurance policy under the SMSF. As such, a new underwriting process may be required. Even where the provider of the insurance cover within the SMSF is to remain unchanged, a declaration of health may be required.
- Underwriting issues may arise, especially if the person has had health issues or their health has deteriorated since the last underwriting process took place.
- Where insurance is held within superannuation, consideration must be given to making appropriate binding death benefit nominations.
- In a recent communication published in November 2014, the ATO confirmed that from 1 July 2014, cross ownership of insurance policies is not permitted within superannuation (including SMSFs). Cross ownership is where the policy owner and the insured are different persons, such that each person holds an insurance policy on the life of the other. "These types of arrangements are prohibited because the insured benefit will not be consistent with a condition of release in respect of the member receiving the benefit," the ATO said.

Anna Mirzoyan, Technical Services, Fiducian Portfolio Services.

QUESTIONS

1. Which of the following statements is correct in relation to collectables and personal use assets in an SMSF?

a. Collectables and personal use assets cannot be leased or used by a related party.

b. A member of the SMSF can sell collectables or personal use assets to a related party without any conditions.

c. A member of the SMSF can display artwork that belongs to their SMSF in their personal principal residence.

d. There is no difference to when the asset was purchased, before 30 June 2011 or after.

2. Which of the following is most appropriate with regards to holding insurance within superannuation?

a. The proceeds of Term Life insurance are always paid tax-free.

b. The proceeds of TPD insurance are always paid tax-free.

c. The premiums of Term Life, TPD and Income Protection insurance are deductible for the trustee of the superannuation fund.

d. The premiums of Term Life, TPD and Income Protection insurance are tax deductible to the life insured.

3. In order to develop an effective investment strategy for an SMSF, the trustee will generally be required to consider a number of issues that take into consideration all the circumstances of the fund, including:

a. Profile of members, risk and return.

b. Profile of members, level of diversification, risk and return, liquidity and cash flow, payment of member benefits, and each member's insurance needs.

c. Liquidity and cash flow.

d. Payment of member benefits, level of diversification.

4. When replacing insurance policies held outside of superannuation to insurance within the SMSF, the following issues must be considered:

a. The member of the SMSF has to cancel the current policy and apply for a new policy under the SMSF.

b. A new underwriting process may apply.

c. A declaration of health may be required.

d. All of the above.

New Centrelink deeming rates

Recent changes to the deeming rate means an estimated 770,000 Australians are expected to receive a higher Centrelink pension than before.

Deeming assumes a certain rate of income from an individual's investments – regardless of the actual income amount – to use in assessing their overall income and calculating Centrelink payment rates.

On 20 March 2015, the deeming rate decreased from 2 per cent to 1.75 per cent per annum for pensioners with financial investments worth up to $48,000 for a single, and $79,600 for couples or $39,800 for each member of a couple.

For investments greater than these amounts, the upper deeming rate is now 3.25 per cent per annum, down from 3.5 per cent previously.

Marianne's situation shows how pensioners are better off under the new deeming rates.

Marianne currently receives a part-pension as a single, and her only asset eligible for deeming is her $275,000 term deposit.

Under the previous deeming rates, Marianne's pension was reduced by $168.17 per fortnight, but now she has an extra $13.22 in her pocket, with her pension reduced by only $154.95 per fortnight.

The usual benefits of deeming assets still remain.

Firstly, the deeming rule means less work for you and your clients. Rather than requiring part-pensioners to report investment income on a fortnightly basis, the Department of Human Services (responsible for Centrelink payments) simply runs the calculations on the flat annual deeming rate.

But the best part is that if your client is earning more than the deeming rate, they can hold onto the extra.

The Department only needs to know the value of the individual's assets, and it will do the rest.

It's worth reminding your clients to report on any changes in assets and investments, to make sure they get what they're entitled to, without accruing a debt. And with online options, this is easier than ever. Using myGov (my.gov.au), Centrelink customers can report their assets without needing to visit Centrelink in person, or wait on the phone.

Once your client has created a myGov account and linked their Centrelink account, they can sign-in to view their new rate and can also update their income and assets using online services.

For more information on deeming rates, visit humanservices.gov.au or to update income and assets, pensioners should visit my.gov.au

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