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Survive and thrive

Chris Riddell talks about embracing change as a way of shaping the future

THIS ISSUE: The National Disability Insurance Scheme / Congress 2015
Financial impacts of insurance funding options

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Do you have a client story to share? Have you gone above and beyond for your local community? Maybe it's your time to shine.

Entries for the 2015 FPA Awards are now open!

FPA Awards 2015

The categories this year are:

- FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award
- FPA Financial Planner AFP® of the Year Award
- Future2 Community Service Award
- University Student of the Year Award

We believe your hard work and dedication deserves recognition.

Find out more at fpa.asn.au/awards.

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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Connecting consumers

I am proud of our growing professional community, and all that we achieve together. We have some exciting consumer initiatives coming up, so make sure you get involved.

At the FPA, we are passionate about connecting consumers with high quality financial advice. We do this through raising awareness about FPA members, participating in financial literacy initiatives and encouraging members to become role models in their local community.

Financial Planning Week

Taking place on 24-30 August, Financial Planning Week will once again raise consumer awareness about financial advice and ensure Australians at every life stage are thinking about the future. This year's campaign includes an extensive public relations program, social media advertising, a local ambassador program and our signature 'Ask an FPA Expert' online forum, where consumers can put their questions to FPA experts.

We were delighted with the level of interest from FPA members wanting to be involved with the online forum. If you weren't able to participate on the panel, you can still support Financial Planning Week by spreading the word on social media. You will hear more about this as we kick off the campaign.

We were delighted with the level of interest from FPA members wanting to be involved with the online forum.

10thousandgirl partnership

Back in May, we proudly announced our partnership with 10thousandgirl, a social enterprise that promotes financial literacy amongst women. In support of their 2015-17 Regional Women's Financial Literacy Project, we have sponsored 20 FPA members to participate in the program.

Participation includes speaking at a local workshop, being listed in the online directory of Australia's Top 100 Trusted Advisers for Women, blog content submission and the opportunity to have coffee catch ups with women in the local area. New locations will be announced later this year.

FPA Awards program

We are delighted to open nominations for the 2015 FPA Awards program, which recognises outstanding financial advice and also FPA members who have gone above and beyond for their local community. Nominations will close on 11 September and you can find out more about this year's awards on the FPA website.

This year, I am particularly excited about the new University Student of the Year award, which recognises students who have achieved excellence early on. Building on the work we already do with universities through the Financial Planning Education Council (FPEC), this program will recognise the top performing student nationally.

Future2 fundraising

If you are not too familiar with the Future2 Foundation, I encourage you to take a look at the marvellous work it does, with support from the FPA community. Through fundraising, personal donation and volunteering, together we raised $267,000 last year.

The signature annual Future2 Wheel Classic heads north this year, leaving Sydney on 10 November and arriving in Brisbane on 18 November for the FPA Professionals Congress. I encourage you to consider entering or supporting one of the riders.

This year, Future2 also launched the Future2 Kilimanjaro Challenge, a hike up the world's highest freestanding mountain next February. For more information about both these events, you can visit www.future2foundation.org.au

Of course, this is only the tip of the iceberg. There are many more initiatives in the pipeline and I look forward to sharing them with you soon.

Enjoy this edition.

Mark Rantall CFP®
Chief Executive Officer

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< GAIN FROM OUR PERSPECTIVE >

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Industry united in life insurance proposals

On 25 June, the FPA announced a response to the life insurance debate, which was made in conjunction with the Association of Financial Advisers (AFA) and the Financial Services Council (FSC).

According to FPA chief executive officer Mark Rantall, the response follows a lengthy and challenging consultation period, during which the FPA gained feedback from FPA members on its FPA Life Insurance Blueprint, before working towards a sustainable solution for the industry.

Key features of the combined response include:

- A transition from high upfront commissions to a hybrid commission, level commission or fee-for-service model.
- From 1 January 2016, upfront commissions will be capped at 80 per cent and then reduced to 70 per cent from 1 July 2017, before settling at 60 per cent from 1 July 2018.
- Where a hybrid model is adopted, ongoing commissions will be capped at 20 per cent from 1 January 2016.
- New retention clawback provisions will commence from 1 January 2016, starting with 100 per cent of the commission in year one, 60 per cent in year two and 30 per cent in year three of the policy.

- A ban on other volume-based payments from 1 July 2016, with appropriate grandfathering arrangements, consistent with the Future of Financial Advice laws.
- Government to consider measures to widen Approved Product Lists by 1 July 2016.
- Ongoing reporting by life insurance companies of policy replacement data to ASIC, commencing 1 January 2016.
- Life insurance companies to offer fee-for-service insurance products to support advisers who wish to operate on a fee-for-service basis.
- Life Insurance Code of Conduct to be developed by the FSC by 1 July 2016, setting out best practice standards for insurers.
- ASIC to review Statements of Advice, with a view to making disclosure simpler and more effective.

The Government has welcomed the proposed reform package.

"These proposals are intended to produce significant benefits for consumers," said Assistant Treasurer, Josh Frydenberg. "This will be achieved through improved quality of advice as a result of a better alignment of interests, more product choice and enhanced competition. The proposals have the potential to be the most significant reforms to the retail life insurance sector since the Wallis Inquiry recommendations were implemented in 2001."

Frydenberg said the Government will now consider the industry's proposals in the context of its response to the Financial System Inquiry (FSI).

"We are pleased that the industry response has been welcomed by Government, and will be taken into account in response to the FSI Inquiry," Rantall said. "The alternative of level commissions only, as outlined in the FSI Inquiry, would not have provided comprehensive consumer protection, access to affordable advice and industry sustainability. These three elements have been core considerations in this response."

Entries open for FPA Awards 2015

The search for Australia's top financial planners is underway, with entries now open for the prestigious FPA Awards for 2015. The awards recognise FPA practitioners who provide superior outcomes for clients, while aligning their professional expertise to the FPA's Code of Professional Practice and Code of Ethics.

Four categories are open for submissions. They are:

- FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award;
- FPA Financial Planner AFP® of the Year Award;
- Future2 Community Service Award; and
- University Student of the Year Award.

FPA chief executive officer, Mark Rantall, is particularly excited about the new category for university students, which recognises top performing students studying financial planning. He says the award builds on the work the FPA is already doing with universities through the Financial Planning Education Council.

Individual regional winners will be recognised in each award category, with an overall national winner then selected in each category from the pool of regional winners. All practitioner members of the FPA are eligible to enter the awards.

Last year's winner of the 2014 FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award, Randall Stout CFP® said he was motivated to enter the awards by seeing the quality of the previous winners and as an opportunity to showcase his own expertise to the wider profession.

"I looked at the previous award winners and thought, as a planner, what a privilege it would be to be in their company," Stout said.

Stout has used his 2014 national award to help raise awareness of the CFP designation and to promote the message that financial planners do make a difference to the lives of their clients.

The deadline for submissions for the FPA Awards 2015 is 11 September, with the winning awards announced at the FPA Professionals Congress in November. For more information on the FPA Awards or to download an entry form, go to www.fpa.asn.au/awards

Early bird closes soon

Early bird registrations for this year's FPA Professionals Congress in Brisbane (18-20 November 2015) close on 31 August.

The theme of this year's Congress is 'Shaping Futures'. As the financial planning profession transforms, this year's Congress will focus on the ways practitioners are shaping the future for themselves, their clients and the profession in a powerful and positive way.

The 2015 program includes inspiring speakers, opportunities to learn and network. One of the Congress' keynote speakers, Chris Riddell, is profiled on p16-19 of this issue.

For more Congress information, go to www.fpacongress.com.au

The FPA congratulates the following members who have been admitted as CERTIFIED FINANCIAL PLANNER® practitioners and who recently achieved the LRS® Life Risk Specialist designation.

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Timothy Webb CFP®
ASET Wealth Management

Trina Wood CFP®
Green Associates

Jie Huang CFP®
State Super Financial Services

Alison Smith CFP®
ASET Wealth Management

Anthony Whipp CFP®
ASET Wealth Management

NSW

Shanaka De Silva CFP®
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Daniel Crump CFP®
State Super Financial Services

Gregory Thornton CFP®
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Diana Gowdie CFP®
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Innate Wealth

Michael Pearce CFP® LRS®
Mercer Financial Advice

AFL Grand Final Lunch

Registrations are now open for the **Melbourne Chapter's** annual AFL Grand Final Lunch on Monday 28 September.

This year, the 'all-star' line-up will include father and son duo, Tim and Jobe Watson, who will be accompanied by Chris Judd and Billy Brownless.

Book early to avoid disappointment at www.fpa.asn.au/events

A woman's worth

'A woman's worth' was the topic discussed at the **Melbourne Chapter's** sold out Women in Financial Planning lunch on 16 July.

During this event, guests heard from two inspirational speakers: Mel Novak, the founder of GOSS – a female networking group; and Leah Callon-Butler, a Sydney-based small business consultant.

Both speakers explored the topic 'A woman's worth', which included providing advice on how not to sell yourself short and ways of protecting your worth through your networks.

Guests were treated to a fine lunch at The Dutchess Melbourne, and each received a gift bag provided by the event's supporters.

Upcoming Chapter events

3 August
Geelong: Member Lunch

6 August
Gold Coast: Networking Evening

14 August
Northern Territory: Golf Day

19 August
Western Australia: Member Breakfast

27 August
Sydney: Elev8 Young Professionals Networking event

28 August
South Australia: Young Professionals Networking event

For a list of upcoming FPA events in your local Chapter, go to www.fpa.asn.au/events/

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Making super fairer for all Australians

Q: What changes would you make to super to make it more equitable and fairer for all Australians?

Rob Coyte CFP®

CEO and representative, Shartru Wealth Management

Licensee: Shartru Wealth Management

In my opinion, to make the super system fairer we simply need to wind back the clock on a couple of issues.

The concept of RBLs was to cap the amount of tax concession within superannuation that would be available to an individual. In saying this, when these regulations were in, there was no limit on undeducted contributions that were excluded from RBL calculations. Some form of RBL (not the old system but something simple) along with non-concessional caps currently in place, will 'cap' the amount of tax concessions available to each individual.

I would also reintroduce the tax on lump sum withdrawals in the same form that it was previously. This will encourage superannuants to leave their super in a pension form, which could be counted towards the asset and income test for Age Pension purposes, thus reducing that burden on the Government.

With these measures in place, I would then remove the 'superannuation surcharge' on high income earners.

Wayne Leggett CFP®

Principal, Paramount Wealth Management

Licensee: Fortnum Financial Advisers

Barring a few 'mis-steps' along the journey, superannuation has steadily improved, ever since the industry super regime came into existence in the late 1980s, making it the preferred vehicle for retirement savings in Australia.

That said, there are a number of inconsistencies in the superannuation system in comparison to the rest of our investment and taxation framework.

While most applaud the tax concessions afforded to account-based pension income, it is a strange anomaly that a self-funded retiree aged 60 or more in receipt of such a pension has an unlimited annual tax-free income (at least until their capital is exhausted), while his/her employee counterpart pays tax on their income from personal exertion.

Another inexplicable quirk in our system is that once a person has retired beyond their 'preservation age', they have tax-free access to their entire superannuation balance, as either a lump sum or pension.

Furthermore, there is nothing to prevent such people from exhausting their entire capital base, then applying for the Aged Pension. With those over 65 representing the fastest growing age cohort in the Australian population, and the proportion of them to taxpayers growing rapidly, the country simply cannot sustain such a system.

The other flaw in the system is that concessional contribution caps do not take into account the realities of the capacity of most people to save for retirement. Typically, people spend their earlier years paying off homes and raising families and can only place an emphasis on retirement saving in their later years of working life. The current concessional contribution limits make little allowance for this and compromise the capacity of many Australians to save tax effectively for their retirement.

Much has been made of the viewpoint that superannuation tax concessions give a disproportionate benefit to the section of the Australian population that need it least. This is a consequence of the fact that concessional contributions reduce tax payable from the taxpayer's marginal rate to 15 per cent.

So, the solution to making super tax concessions more equitable is simple; rather than concessional contributions being tax deductible, they should be subject to a tax rebate. This would remove the marginal tax rate as a consideration of the benefit afforded by concessional super contributions and make the benefit the same proportion of contribution for all taxpayers, regardless of their marginal tax rate.

Tony Gilham CFP®

Founding Partner, GFM Wealth Advisory

Licensee: GFM Wealth Advisory

I am completely of the opinion that the current system is very fair, and gives all Australians a chance to build up their retirement nest egg if they are conscientious enough.

There is this constant argument that those on higher incomes and those with larger super balances have an unfair advantage over everyone else, but it's just not true.

As far as concessional contributions go, for anyone earning less than $300,000, they all pay exactly the same tax rate – 15 per cent. And those with an income over $300,000 actually pay as much as 15 per cent more.

As far as non-concessional contributions are concerned, these contributions don't incur any tax, but it must be remembered that in the majority of cases, fund members have paid personal income tax

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

on the money they received before it is contributed into the superannuation environment, and obviously higher income earners actually end up paying more tax.

Yes, clearly, higher income earners probably have the capacity to make larger contributions to the superannuation environment, but inevitably, need larger balances at the retirement end in order to fund the lifestyle that they have been used to.

Someone with a taxable income of $200,000 pays $67,947 in tax, yet another person with a taxable income of $50,000 pays $8,547 in tax, and it's easy to see who is the bigger contributor to the Federal Government tax pool. But it's interesting to note that the taxpayer with an income of $200,000 (four times as much as the $50,000 taxpayer) pays nearly eight times more in tax, so it's hard to criticise them for trying to take advantage of a legal taxation concession granted by the Government.

We have had a superannuation system in Australia that has provided significant taxation concessions for many years, and many people have taken advantage of those concessions and built up considerable superannuation balances, and it would be wrong now to retrospectively impose additional taxes on those higher balances.

The only fair way to prevent 'rich people' from piling too much money into the super system is to put a lifetime cap on contributions, probably with some indexation. There might be a cap of $1 million on concessional contributions and $2 million on non-concessional contributions, with a combined cap of, say, $2.5 million.

Sure, there is something like 475 people in Australia with a super balance in excess of $10 million, and they certainly are in a privileged taxation position, but there are also lots of people living in places like Vaucluse and Toorak, in a home worth $10 million or more, which is completely exempt from any tax when they eventually sell it, or pass it down to their estate.

It's a clearly stated objective of all political parties to have a decent level of self-funding for Australians in retirement, and imposing any new taxes on super fund members who have followed all of the rules, would almost certainly be a discouragement for all Australians to attain their own self-funded retirement.

Daryl La'Brooy CFP®

Financial Adviser,
Hillross Financial Services

Licensee: Hillross Financial Services

Currently, if a person is a low income owner or has an income of less than $37,000 a year, they pay 15 per cent contributions tax on monies contributed to super, despite their average tax rate being 9.65 per cent.

Contrast this with a person earning $180,000 a year where their super contributions are still taxed at 15 per cent, but the average income tax rate is 30.3 per cent on salary. I know I have used extreme cases at either end of the spectrum to illustrate my case here, but this is where the system can be made fairer.

A very simple change could be to increase the contributions tax on super contributions for those earning more money, so that the tax benefit to high income earners isn't any greater than low income earners.

If the average wage is now nearly $80,000 per annum and the marginal tax rate for those earning $80,000 per annum is 32.5 per cent, then by putting money into super on a concessional basis people on this income saved 17.5 per cent in tax. A person earning $180,000 and above saved 34 per cent in tax.

So a solution to make the system more equitable is to charge high income earners a higher super contributions tax. This is already occurring for those earning more than $300,000 annually where the super contributions tax is now 30 per cent. These income earners are still 19 per cent better off making super contributions compared with taking more of their salary package in cash

Further changes could be made to those with higher super balances. The Labor Party when in government was looking at charging those with balances above $500,000 extra tax.

Those in pension phase who have turned 60 presently receive tax-free income. This tax-free status could be altered, although it unfairly penalises people who have planned on the current rules persisting.

There is around $2 trillion of accumulated monies in the super system at the moment, and annual contributions are worth tens of billions of dollars. So, the amount of money to play with is large and it's not as if the Federal Government can't do without the extra tax revenue.

Rebecca Fergusson CFP®

Principal and Private Client Adviser,
Main Street Financial Solutions

Licensee: Fitzpatricks Financial

It has been suggested that a 'fairer' superannuation system is required, as the majority of tax concessions accrue for the top income earners.

Tax concessions are an important part of the superannuation system, as they encourage people to contribute monies and increase savings. Higher national savings improves economic resilience and fosters fiscal sustainability, and the superannuation system is an integral part of this.

Given the Higher Income Super Charge that already exists, the contribution caps, which limit the extent to which individuals can use the superannuation system anyway, and the fact that if the tax concessions were not available, less people would put money into super, then I believe the system is already well balanced.

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.

Change through actions

John Moran is the winner of the Gwen Fletcher Memorial Award for being the highest achieving student in the CFP® Certification unit for semester one. He views the award and attainment of the CFP® mark as a true achievement.

Name: John Moran CFP®

Educational Qualifications: Bachelor of Commerce (Accounting), Diploma of Financial Planning

Position: Head of Advice and Director

Practice: Apt Wealth Partners

Licensee: Apt Wealth Partners

FPA Professional Practice: Yes

CFP designation: 19 June, 2015

Years as a financial planner: 16 years

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

Both my firm, Apt Wealth Partners (being an FPA Professional Practice) and I believe strongly in the CFP designation and the valuable work the FPA does.

I decided to become a CFP professional because I knew the CFP Certification Program was necessary for my professional development and the high standards expected of me.

The CFP Certification Program ensures planners gain a thorough understanding of all financial planning principles. The program is also essential for developing the skills required for our profession.

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

Structure, routine and most importantly, start early. For the assignment, it is vitally important that you start this immediately and you attend the webinar to pick up the key concepts and points the assessors are looking for.

Summarising the education materials for CFP 1-4 should start before the semester begins. You should also ensure a quick reference system is in place for the open book exam. For me, the Mastech Big Black Book was a great resource, in addition to the *Financial Planning* magazine CPD quizzes.

In the exam there is hardly time to reference notes, so it's important you do the hard work, put the time in and understand the knowledge areas in detail. Doing past exam papers is also important. Without the hard work, you won't get the return, so ensure you put the time in.

3. What does winning the Gwen Fletcher Memorial Award mean to you?

It's amazing to read about Gwen and her achievements. Gwen was a true pioneer of our profession and laid the groundwork for what we all practise and aspire to today. Winning this award is a true honour for me. I want to thank the FPA for this award and also pay tribute to Gwen Fletcher – the first lady of financial planning.

[As part of his award, John Moran receives a certificate of recognition and $1,000, which is funded by the FPA. John has kindly donated his cash prize to the Future2 Foundation, which assists disadvantaged young Australians in need.]

4. How important is structured and ongoing education for planners in the journey towards professionalism?

This is crucial. At Apt Wealth Partners, education and training is a key focus. A client first approach requires keeping abreast of constant change in legislation and also ensuring continuous updating of technical skills. However, these are really only the base skills to have in order to be an effective financial planner.

Increasingly, it is important that planners build their skills more in how to build strong relationships with clients, how to enhance emotional intelligence, and how to drive the efficiencies of their practices through good practice management.

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

The most challenging aspect is the negative press our profession has endured over the years through the actions of a minority. It's up to all of us to change this through our actions and our continued focus on professionalism. We can do this by placing the client first at all times.

It's also important that we all adhere to a Code of Practice and support the FPA in its endeavours to raising the bar on professionalism.

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

I believe it's changing the culture from that of an investment manager/product approach to a project manager/principal adviser approach. The transactional part of what we do should be part of our role, but not the only part.

From the outset, a goals-based approach to planning is required and clients should see their financial planner as their 'principal adviser'. The principal adviser is the professional they turn to for all of their financial needs and is the person who is with them to sort through any complex issues.

7. What advice do you have for any planner considering becoming a CFP professional?

Simply do it. It has been hard work to become a CFP professional, however, looking back, I have really got an enormous amount out of it.

My advice is to start early and continue to do it uninterrupted. Obviously, family and business demands can dictate study arrangements but getting it done quickly is important.

For me, obtaining this global designation is a true achievement.

The financial landscape is changing and the way in which the profession is heading will mean that consumers in the future will only look for the CFP designation when seeking advice.

The CFP designation is the mark of excellence and I would highly recommend the CFP Certification Program to anyone.

The Gwen Fletcher Memorial Award

The Gwen Fletcher Memorial Award was established in 2014 in memory of Gwen Fletcher AM, who was considered by many to be the matriarch of financial planning in this country.

The award honours in perpetuity the memory of Gwen Fletcher, and supports one of her key legacies in her lifelong endeavours to champion the vital role of education and its central importance in nurturing the financial planning profession.

Gwen Fletcher was not only a respected financial planner but also an educator, and helped shaped the industry into an emerging profession. She was also responsible for bringing the CFP® Mark to Australia in 1990.

The Gwen Fletcher Memorial Award is presented each semester to the highest achieving student in the CFP Certification unit, which covers all three required assessments in the CFP Certification Program.

As part of the award, recipients receive a certificate of recognition and $1,000, which is funded by the FPA. This year's Semester 1 winner, John Moran, has kindly donated his cash prize to Future2 – the charitable foundation of the FPA.

Launch of new Journal

Launching the new Financial Planning Research Journal: Mark Rantall, Dr Mark Brimble and Dr Rakesh Gupta.

The launch of the Financial Planning Research Journal will bring the profession and academics closer together. Jayson Forrest reports.

The Financial Planning Academics Forum (FPAF) has joined with the FPA to launch the Financial Planning Research Journal – a collection of financial planning specific academic research papers showcasing the work done by academics. The journal is aimed at encouraging thought and discussion in the wider financial planning profession.

According to FPA chief executive officer Mark Rantall, the journal is part of a wider strategy targeted at bringing together academia and the financial planning profession for the benefit of practitioners and consumers alike. As part of the strategy, the journal also complements earlier initiatives by the FPA and the Financial Planning Education Council (FPEC), including the annual funding of financial planning research grants to university academics.

"The FPA is working closely with the tertiary sector and we believe the launch of the journal, along with the grants scheme, will lead to a further deepening of the relationship between the financial planning profession and the higher education sector," Rantall said.

Co-chair of the FPAF, Griffith University Associate Professor Mark Brimble said the launch of the journal was an important part of gaining academic recognition of financial planning as a profession.

"Financial planning is new as a profession in the academic space," Dr Brimble said. "Up until now, there has been no specific financial planning academic journal in Australia where academics can have their research papers peer reviewed. This journal will now provide that means and will assist in establishing financial planning as a profession in its own right amongst Australian universities."

Brimble added that by producing a collective body of work, the journal would eventually be ranked by academics. He said this was not only necessary for the credibility of financial planning but was another important step in Australian universities accepting this discipline as a profession.

The journal will be promoted to the 75 members of the FPAF, comprising 24 tertiary institutions.

Dr Rakesh Gupta, from Griffith University, joined Dr Brimble in emphasising the journal would be independent, with strict academic rigour in place for the peer review process of all research papers.

"The editorial review committee consists of academics from a wide range of tertiary institutions. All papers submitted will be sent for 'blind' peer review. This means concealing the identity of the author and their institution, to ensure a non-biased review of their paper," Dr Gupta said.

And as part of the criteria for the research papers, all papers submitted for review must be original pieces of work and importantly, make a contribution to the intellectual standing of the profession.

The journal will initially begin with two issues per year, comprising six articles per issue. As papers are reviewed and authorised for publication, they will be promoted through *Financial Planning* magazine and the FPA's e-newsletter *FPA Express*, enabling members to read these research papers. When six papers are available, they will be fully paginated into the journal – available as both a hard and digital copy.

"The financial planning profession needs an official and robust body of knowledge that has been tested and reviewed at an academic level. It's an important and necessary step in the evolution of financial planning into a respected profession," Rantall said.

"The journal is about promoting dialogue and discussion between the academic community and the profession. It's about building a bridge between both. And importantly, we want practitioners to read it and benefit from it."

Rantall said the journal was another important step in bringing the financial planning and academic communities closer together.

"It will be exciting to see some of the research papers published in this journal, some of which may be the result of the annual research grants given to university academics from the FPA," Rantall said.

"This is all part of a wider strategy that brings the profession and academics closer together. The benefits of working in a collegiate way are many and will reflect well on our journey towards becoming a recognised and respected profession."

Life stage awareness in Financial Planning Week

This month, the FPA celebrates its 15th consecutive Financial Planning Week (24-30 August), with an integrated campaign to promote the value of financial planning advice amongst consumers.

With the spotlight firmly focused on the financial planning profession, the FPA is committed to using this year's Financial Planning Week (24-30 August) to again raise awareness about the benefits of good financial advice to the wider Australian community.

A key component of this year's campaign will be to educate and engage with Australians by life stage, with blog content they can easily identify with. The content will direct consumers to the 'Ask an FPA Expert' forum, which in turn will also drive traffic to Find a Planner.

Media blitz

The FPA will roll out an intensive media campaign in the lead up to, and during, Financial Planning Week. The campaign will target national, metropolitan and local media outlets, as well as selective social media platforms. For each day of Financial Planning Week, content will be designed to focus on a different life stage of a consumer – from young to mid-life to retirees.

Local Ambassador Program

FPA Chapter Chairs will participate in local media opportunities that raise awareness of the benefits of good financial advice. This includes assisting with newspaper articles and radio Q&A sessions with consumers. It is expected this activity will increase awareness of Financial Planning Week at a local level and help create a buzz in communities nationwide.

Ask an FPA Expert

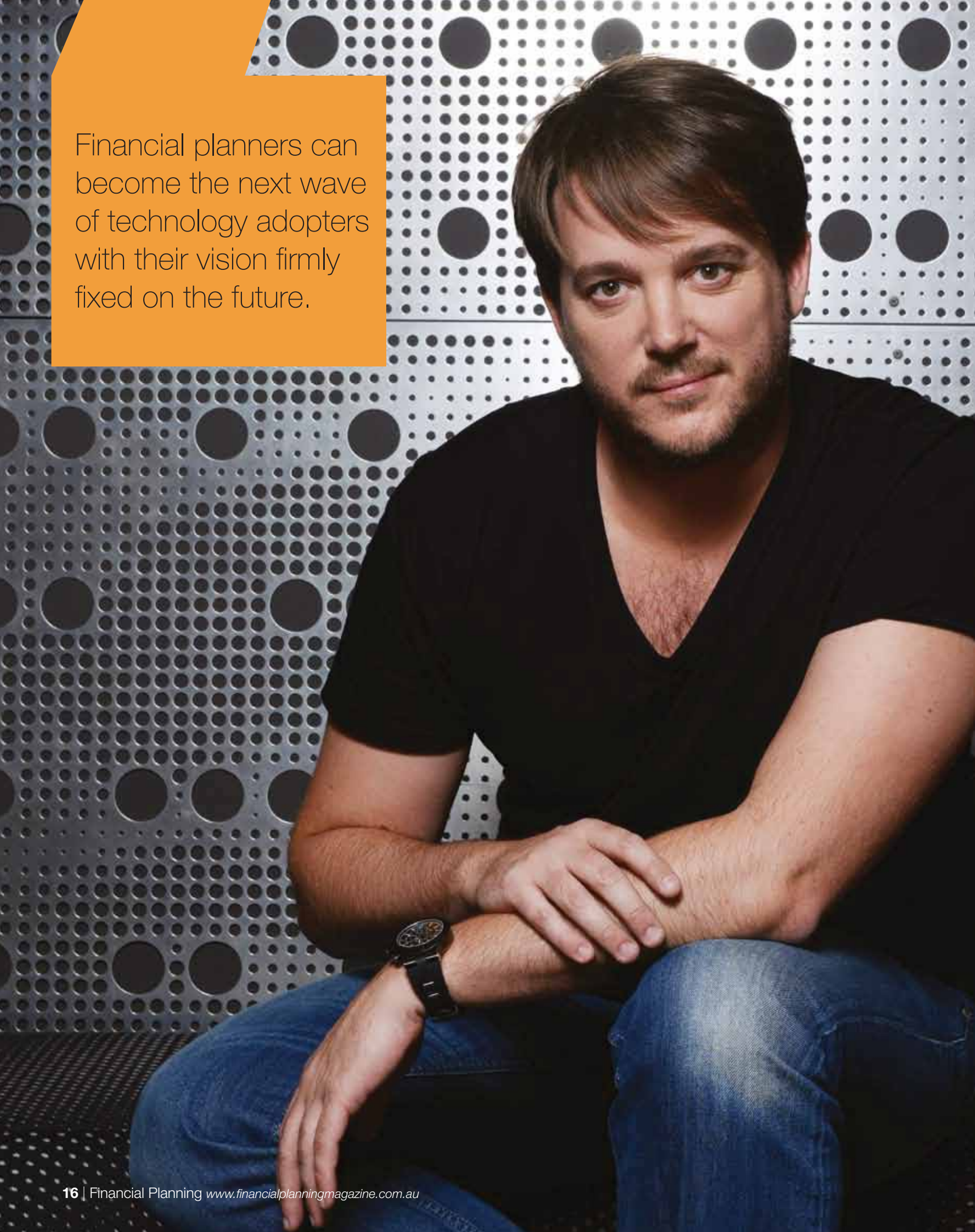
This year's 'Ask an Expert' has been renamed 'Ask an FPA Expert'. This online forum enables consumers to post their questions to an expert panel of FPA members for a two week period. The 'Ask an FPA Expert' online forum will go live before Financial Planning Week officially begins.

Social media

Following on from previous successes, the FPA will again ramp up social media activity with a range of strategies to engage different consumer segments in the campaign. Content from the blog will be re-purposed for various social media channels, such as Facebook. You can follow the latest updates at @AustraliaFPA and follow the #FPWeek conversation on Twitter.

FINANCIAL PLANNING Week 24-30 August 2015

Financial planners can become the next wave of technology adopters with their vision firmly fixed on the future.



Let's survive and thrive

In a keynote presentation at the FPA Professionals Congress in Brisbane, Chris Riddell shows how planners must move past disruption and embrace technological change as a way of shaping the future for themselves, the profession and their clients. Jayson Forrest reports.

The speed at which change and disruption is happening within the financial services industry is something to embrace and be comfortable with, not be fearful of.

This will be one of the key messages that strategist and global emerging trend spotter, Chris Riddell will be emphasising in a highly energised and fast paced plenary session at this year's FPA Professionals Congress.

Underpinning the theme of Chris' presentation will be how planners can get their mindset ready for the future, thereby allowing them to shape their own future and that of their clients. This, he says, includes how to embrace the new world that we're in, which is highly disruptive and very volatile.

"The financial services industry is under an incredible amount of 'disruption', probably more so than any other industry. It's also one of the most regulated industries. So, this can make it really tough for planners to cut through all the noise in order to succeed. It can be a really daunting challenge."

However, 'redistribution' is a term Chris prefers to use instead of 'disruption', which he finds too negative.

"The reason why I refer to it as 'redistribution' is because 'disruption' is just a re-shifting of power and balance from the large institutions that previously dominated industries. But in the world we live in now, through the power of networks (both professional and social), it means that anybody can set themselves up over-night and have huge success because of the number of networks you can connect to at a press of a button."

In a fast-paced and compelling presentation, Chris Riddell will discuss:

Adapting and embracing change as opportunities for you and your clients.

The power of human interaction and professional trust in responding to digital disruption.

It's not about disruption but a redistribution of what it is we do and how we go about doing it.

He says the power these large institutions once had has now shifted to the individual. "That's why I call it 'redistribution' rather than 'disruption'. And this 'redistribution' is an opportunity that will allow planners to shape their future."

According to Chris, his presentation will focus on challenging delegates to look forward to the future and showing them how to tap into trends and technology that is changing on a seemingly daily basis. "It's about changing mindsets," he says.

"It's not always about technology," Chris says. "It's also about having the mindset to being able to deal with change and volatility. Even though I will be talking about digital, I'm also going to be talking about the mindset shift that needs to happen now in order to be able to survive and

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thrive in this new and changing world."

Future

As a futurist, Chris also has very strong views on what the future for the financial planning profession is likely to look like, which he will also cover off in his presentation.

"I think the financial planning profession is going to go through an incredible amount of change over the next few years. But it's all going to be good," he says.

He believes planners are in a unique position, having built up trust with their clients over a number of years. He says the opportunity for planners is to take that trust and position themselves as professionals at the forefront of change.

"By doing so, no longer will you just be dealing with the reactionary stuff of today. Instead, financial planners can become the next wave of technology adopters with their vision firmly fixed on the future."

Chris says this transformation is absolutely essential, as the needs of clients are also rapidly changing.

"Consumers are increasingly coming under as much disruption as the financial services industry itself," he says. "Consumers continuously need advice about what they should be doing. And who is best to provide that? It's financial planners. You're trusted and you intimately understand the needs and objectives of your clients. You are well positioned to be the next wave of professionals in the technology space."

Robo-advice

In his presentation, Chris will dispel some common myths and show how changing technology, like cloud-based systems and automated advice, are something to be embraced and not feared. Instead, he believes they form part of the suite of services planners can provide their clients.

"There's a lot of fear around robo-advice, which is a hot topic at the moment. People and organisations are fearful that automated advice will mean a loss of jobs and loss of clients. But that's not true at all," he says.

"This is just another tool that can be used by you and your clients to free up time, so you can concentrate on more important things. Imagine if you can free up 50 per cent of your time and then reinvest that time back in to actually helping your clients and focusing on your business," he says. "It's about looking forward to the future, rather than just dealing with the stuff of today. That's a huge opportunity for planners and their clients."

To illustrate his point, Chris refers to the initial arrival of the ATM machine in Australia and the fear it caused amongst people. Many thought ATMs would result in job losses and the end of face-to-face banking. But none of that happened.

"Since the days of the industrial revolution, people have feared change. Whenever new technology is introduced and processes start to get

YOUR SPEAKER

Chris Riddell is Australia's most sought after futurist, and award-winning industry recognised keynote speaker on digital. He is also a renowned strategist and global emerging trend spotter for businesses and leaders in today's disrupted world.

A global trailblazer, Chris has worked for some of the largest and most successful companies and brands in the world. He has lived and worked in the UK, Saudi Arabia, Dubai, Kuwait, China, New Zealand and Australia. His understanding of our new world is compelling and thought provoking.

Chris was the first ever Chief Digital Officer for MARS Incorporated in Australia and New Zealand, where he was responsible for developing the corporate digital strategy behind brands such as Whiskas, Pedigree, Wrigley, Starburst, Masterfoods, Snickers and Maltesers.

According to Chris, being a futurist is about "authentically embedding yourself into the very space from where true innovation and disruption is taking place, analysing future and emerging trends, then distilling them into a clear and meaningful keynote message for business to be able to take affirmative and decisive action on".

Chris is a senior adviser and consultant to businesses across a number of industries, including technology, transportation, manufacturing, healthcare, finance and communications. He is a current board member of the Museum for Australian Democracy at Eureka, and writes columns for online digital agencies and corporations, providing deep insights into the world of digital, disruption and future change.

EARLY BIRD CLOSES SOON

FPA members will receive a 12 per cent discount off the standard registration fee, if they register before 31 August.

The 2015 FPA Professionals Congress will take place at the Brisbane Convention and Exhibition Centre (BCEC) on 18-20 November.

Before the Congress officially kicks-off on Thursday 19 November, delegates are invited to attend a 'Welcome Reception' on the evening of Wednesday 18 November. Other social events at the Congress will include a 'Women in Financial Planning Breakfast' on Thursday 19 November, along with the highly anticipated Future2 Gala Dinner on Thursday evening.

Three keynote sessions will bookend the Congress, which will also feature four workshop streams - Technical, Best Practice, Personal Development, and Leadership – that will run throughout the two days of the Congress.

The Congress ticket entitles delegates to the following:

- the Welcome Reception;
- all keynote sessions;
- all workshops (delegates are encouraged to pre-select their workshops);
- access to the exhibition hall;
- lunch; and
- light refreshments at breaks.

There is an additional cost for the Women in Financial Planning Breakfast and the Future2 Gala Dinner.

For more information on the Congress or to register and receive an Early Bird discount (available to 31 August), go to www.fpacongress.com.au

"I think the financial planning profession is going to go through an incredible amount of change over the next few years. But it's all going to be good."

automated, people fear losing their jobs and tend to only think of the negative implications. But the reality is there are more jobs today than ever before. All we are doing is getting more efficient each time as new technology is released.

"New technology allows us to redefine our jobs and processes. Change is a good thing. The challenge is getting our headspace into being comfortable with change. And one thing is for certain, we're always going to have change. So, let's embrace it and allow change to help shape our future."

For more information on the FPA Professionals Congress (18-20 November, Brisbane), including registration and accommodation details, go to www.fpacongress.com.au

Customer due diligence: Are you ready?

Compliance with the new customer due diligence obligations for Anti-Money Laundering and Counter-Terrorism Financing is fast approaching. Emma Hunter asks, will your organisation be compliant for the 1 January 2016 deadline?

Background

In May 2014, amendments to the *Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No.1) (Cth) (AML/CTF Rules)* were announced. The Financial Action Task Force (FATF)[1] had previously identified customer due diligence as an area of Australia's AML/CTF regime that required improvement. Specifically, FATF highlighted that the Australian legislative regime did not include requirements for reporting entities to:

- take reasonable measures to understand the ownership and control structure of customers;
- identify and verify beneficial owners of customers;
- determine whether a customer is acting on behalf of another person and if so, take reasonable steps to identify that person;
- identify and verify the settlors of trusts;
- take additional measures when dealing with politically exposed persons (PEPs); and
- collect information on the purpose and intended nature of the business relationship.

The amendments were made to address FATF's concerns, to ensure Australia's AML/CTF regulatory regime remained consistent with international standards, and to meet specific FATF requirements regarding the identification of beneficial owners.

Whilst the changes to the AML/CTF Rules became effective 1 June 2014, the Minister for Justice released the *Policy (Additional Customer Due Diligence Requirements) Principles 2014* giving reporting entities until 1 January 2016 to comply with the amendments.

During this 'implementation period', the Australian Transaction Reports and Analysis Centre (AUSTRAC) has welcomed $20 million of funding to improve the detection and disruption of terrorism financing.

Reporting entities have seen increased enforcement activity (particularly in high risk areas such as the remittance sector), with AUSTRAC focusing on the new customer due diligence obligations during routine desk-audits.

With 1 January 2016 looming, reporting entities are advised to ensure they are currently taking 'reasonable steps' towards compliance with the new customer due diligence obligations. Are you ready for 1 January 2016?

New obligations

The amendments to the AML/CTF Rules imposed the following new obligations on reporting entities:

- reporting entities must now also consider customers' beneficial owners, customers' source of funds and wealth, the nature and purpose of a business relationship with a customer and the control structure of non-individual customers when it is assessing money laundering and terrorism financing risk;
- reporting entities must collect and verify information from the beneficial owners of customers – note that for customers who are individuals, reporting entities can assume that the customer and the beneficial owner are one and the same (unless the reporting entity should reasonably consider this not to be the case);
- reporting entities must collect and verify information from the settlor of a trust when dealing with a trust customer;
- reporting entities must identify and verify PEPs and have additional measures in place if a PEP is rated high risk or is foreign;
- reporting entities must incorporate beneficial owners into ongoing customer due diligence procedures.This obligation does not apply to item 54 designated service providers (who are exempt from ongoing customer due diligence).

What this means

Between now and 1 January 2016, reporting entities must be able to show that they have taken reasonable steps towards full compliance with the new customer due diligence obligations. While reporting entities are not expected to be fully compliant today, they are expected to have been taking reasonable steps to ensure they will be fully compliant come 1 January 2016. If a reporting entity has not taken reasonable steps towards compliance, AUSTRAC can impose penalties.

With a view to being fully compliant by 1 January 2016, many of our clients have done the following:

- developed transition plans (prior to 1 November 2014) setting out the path towards full compliance;
- revised AML/CTF programs to ensure compliance with the amended AML/CTF Rules;
- revised and re-conducted risk assessments;
- changed applicable customer identification procedures immediately for all new customers (so that the new customer due diligence standards are applied to all new customers);
- provided AML/CTF training to staff regarding the new customer due diligence obligations;
- provided AML/CTF training to staff on PEPs and beneficial ownership;
- revised and re-conducted customer type profiles and risk assessments;
- considered third-party service providers who offer services specific to beneficial owner and PEP know-your-customer;
- designed and implemented (or partially implemented)

new customer due diligence procedures to accommodate beneficial owner and PEP know-your-customer; and
- revised AML/CTF procedures generally to ensure that the purpose of transactions, a customer's source of wealth and who is funding or benefiting from a transaction, is considered.

On and from 1 January 2016, reporting entities are expected to be fully compliant with the new customer due diligence obligations.

Reasonable steps

When determining whether a reporting entity has taken 'reasonable steps' towards compliance with the new customer due diligence obligations, AUSTRAC will consider all relevant matters, including whether:
- the reporting entity complied with the new customer due diligence obligations as soon as could be reasonably accommodated through existing operations;
- between 1 June 2014 and 1 January 2016 and for new clients with a 'high' risk rating, the reporting entity complied with the new customer due diligence obligations as soon as practicable;
- the reporting entity developed a transition plan before 1 November 2014, which included actions and timelines for compliance with the new customer due diligence obligations prior to 1 January 2016;
- the transition plan is approved by the relevant board;
- the transition plan is sufficiently resourced;
- the transition plan is regularly monitored; and
- the transition plan is made available to AUSTRAC on request.

What next?

During 2014, FATF assessed Australia's compliance with the FATF Standards through a mutual evaluation process.

Whilst the FATF report acknowledged that Australia has a strong regime for combating money laundering and terrorism financing, key areas remain unaddressed. FATF noted in the report that whilst Australia regulates its major money laundering industries (such as banking, remittance and gaming), most designated non-financial businesses and professions are still not subject to AML/CTF regulation. Designated non-financial businesses and professions include real estate agents and lawyers.

The Government was required to commence a review of the operation of the AML/CTF regime before 13 December 2013 and to prepare a report of the review to be tabled in Parliament. The Government has commenced this review with relevant findings of the FATF review to be taken into account.

Reporting entities should expect further amendments to the AML/CTF regime. Designated non-financial businesses and professions should expect a revival of tranche two of the AML/CTF legislative regime. Tranche two of the AML/CTF legislative regime is intended to expand the application of anti-money laundering legislation to the real estate, legal and precious metal industries.

Emma Hunter, Senior Associate, Baker & McKenzie.

Footnote

1. FATF is an international policy making body responsible for setting the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation (the FATF Standards).

Innovation & disruption

The new norm

A roundtable of investment specialists try to make sense of global markets by providing their opinions on where opportunities sit and what needs to happen to reignite the local market. Jayson Forrest reports.

Participants

Tim Samway – Managing Director, Hyperion Asset Management

Alva Devoy – Investment Director, Fidelity Worldwide Investment

Dr Phil Hofflin – Portfolio Manager, Lazard Asset Management

Anton Tagliaferro – Investment Director, Investors Mutual Limited

Matthew Drennan – Group Head of Research and Portfolio Construction, IOOF

FP: Given the current volatility in global and local markets, what should planners be focusing on in terms of investment opportunities?

Anton Tagliaferro (AT): We're living in interesting times. There are sorts of bubbles appearing that I prefer to call over-valuations.

In terms of the stock market, I'm not too worried at this stage. I'm not saying that there are bargains galore but in my experience, you don't normally get a crash when people are expecting it. Normally, crashes come – as we saw in 2007 and 1987 – when everybody was super bullish. I don't see that yet. Instead, I see a lot of caution which makes me feel that things are currently okay.

From a stock market point-of-view, it's very difficult to find great value, which is a relative thing in terms of where interest rates are at the moment. You've got to be very selective with stock selection.

One thing is for certain, we are going to be living in this low growth environment for a while.

Alva Devoy (AD): I think there needs to be a focus on up-scaling, and tactical asset allocation is an absolute must for where we are, both as an industry and in terms of investing.

We are in a 'new normal'. I actually think interest rates will take 10 years to normalise because we've got this low growth environment, and because inflation won't necessarily be the risk that it would have been prior. This means when you think about duration risk within portfolios, it may not be as big or as bad as expected. But on the flip side of that, the hunt for yield continues.

Given where we've come from – monetary support and the easing of monetary policy – we must have an eye on measuring risk-adjusted returns.

So, in terms of looking at what the bubble is today and then adding the next big thing where you're going to make your returns from because yields are low, I think you have to step away from that approach and instead look at a blended approach.

For example, if you've got 'x, y and z' in your portfolio, what are the risk-adjusted returns going to be?

Matthew Drennan (MD): My advice is to have a diversified approach, where you are getting right away from any kind of benchmark relative return focus and really start to look at the absolute returns you get on a risk-adjusted basis. You need to be nimble. You need to be able to move as opportunities present themselves because typically, they're not there for long – because there's so much global hot money running around hunting for yield.

And you need to be able to do that in an old-style diversified approach that looks at using futures and options to move quickly.

Also, you really need to think about traditional safe-havens very differently to the way that we have traditionally thought about them. For example, banks in Australia have traditionally been a high yield play, very safe, returning dividends. But the banking sector is under pressure. So, you need to think differently to the traditional modelling in terms of what constitutes a safe-haven asset.

Phil Hofflin (PH): The 2 per cent cash rate is extraordinary. In Australia, we need to be very aware of what that 2 per cent means. Traditionally, we've had a 2.5 per cent inflation target. The question is, what does a 2 per cent cash rate mean?

For me, it's one of two things.

Firstly, the very large amount of debt that is in the Australian economy means that we too are turning Japanese and there's going to be economic stagnation, similar to all the issues they are addressing in the northern hemisphere, in which case, there is going to be very little earnings growth and that needs to be factored in.

Or secondly, we can take the view that Australia is fine.

So, when you look at the opportunities, the first thing is you need to be consistent and make sure that your interest rate scenario and your growth scenarios are consistent, because in some cases, people are using scenarios that are not consistent.

Tim Samway (TS): In my view, it requires a change of mindset. We've had five years of rising prices in the equities market. So, there was a fairly large amount of easy beta to be made. In a rising market, it's a matter of not missing out. That has been the focus for a lot of people.

With the increased focus on yield, you need to work out how fat the metaphorical pendulum has swung. Have we gone through the bottom and how far are we up before the pendulum starts swinging back? I think it's pretty clear that the pendulum has gone through the bottom and you've got to change your mindset to now focus on the preservation of capital.

That is, there is an awful amount of investors out there who are very focused on yield, have a short-term mindset, and are looking pretty safe on a huge number of yield-type investments – like the banks and Telstra – but are ignoring the potential capital loss. They've had a bit of a reminder that those types of stocks can come off 10 per cent pretty quickly. But they continue to look for yield.

In his 1841 book *Extraordinary Popular Delusions and the Madness of Crowds*, Charles Mackay said: "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one." I think this is a great quote and one that should be remembered.

You need to ask yourself, is the herd all on the one side? Clearly, with 30 per cent of the market sitting in banks, to imagine that is going to continue to happen for years to come, is to completely ignore innovation and disruption. It's to ignore that the banks and other yield plays won't get disrupted. I think that is where the real challenge lies.

Q: There is talk of a property and yield bubble. What other bubbles and underlying risks are you worried about?

TS: I don't think you can reasonably look at any situation and say you are in a bubble. If you look back through history, very few people have been able to determine they were in a bubble when they were actually in the middle of a bubble.

I think the best thing you can do is have a look at that pendulum and ask yourself: 'What is the majority thinking?' You need to remember people like Charlie Munger, who said: "If everybody thinks it, then it's probably not the right way to go."

It's not that many years ago that the resources market was bigger than the banking market. Those things change. Innovation and disruption is the new norm.

Innovation and disruption will create a bubble out of something that might be only a mere over-valuation. So, if something only looks slightly over-valued, a new way of looking at it can turn it into a bubble. For example, the guy who was making buggy whips didn't think he was in a bubble until the first horseless carriage arrived.

AD: And then you come into the actual effect of the bubble bursting. If you look at Australia, being diversified is not just owning Australian property plus Australian bonds plus Australian fixed income plus direct investments into the Australian equity market plus investments through your super fund.

So, given the current circumstances, if the local market was to falter – and that's not even to have a bubble burst – the actual ramifications are absolutely phenomenal because of the double and triple layering effect through investments and through the economy.

We have a window of opportunity to look at diversifying externally and reaching out for returns that are not correlated to the domestic market. And while there has been a lot of discussion about looking for uncorrelated returns, the question is, uncorrelated to what?

So, you need to think in terms of, you're fully invested today but there might be massive implications because you are double or triple loaded. You want to move offshore; you want to move into other assets; but you're afraid that if there is a bubble

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there, technically, there might be factors that carry assets well into over-valued space before that bubble ever bursts. There are many factors to consider.

PH: I use the 65/65 model when looking at banks. Sixty-five per cent of their assets are secured by assets greater than 65 times price earnings.

Residential property is five to six times the size of the Australian equity market and it's owned by households. In the US at the peak in 2006, residential property accounted for 39 per cent of the net worth of the American household, whereas in Australia it was 70 per cent.

The only other things Australians in general own other than their house are some deposits with the banks and some bank shares. Australian households are phenomenally exposed and I think that is a problem for the economy. That's why we are hearing statements from the RBA Governor and the Treasurer that you wouldn't normally hear.

MD: Property is very expensive at the moment, particularly in Sydney and Melbourne. With residential property, we do have some underlying dynamics which at least can support it in the medium-term, like housing construction, local demand for housing, and high immigration rates. So, we've got a situation in Sydney, for example, of high global demand for residential property.

But there are also underlying factors, such as we've been underbuilding for a long time and although that gap is starting to narrow, we're still about 90,000 dwellings below what we need.

So, yes, property is expensive but it has been more expensive in the past. I don't see an immediate problem there. I think the biggest issue is the layered impact – household debt, limited equity sector exposure that is concentrated on the banks, and where the investment sits with the average household. You only need one of these things to start falling over and you can get a domino effect starting to impact household wealth and the impact that has to the real economy.

So, I'm not as worried about the residential property side of things on its own, but I do accept there are a lot of layering problems and a lot of concentration of risk in very narrow sectors.

AT: I think the biggest risk is the concentration of the Australian market. This is a concern because we've gone from a concentration of 35 per cent in resources to the present allocation of 35 per cent in banks.

And in my view, the index in Australia is not a very good guide to making money; it never has been. I think banks are okay but there are some risks, such as housing. I've given up trying to pick the top of the Sydney property market. But it's the same in Auckland and Vancouver. There is a lot of 'hot' Asian market coming into these housing markets. Whether this is sustainable and how long it will continue for, only time will tell.

So, the main thing for me is to simply watch the index. To have 35-40 per cent of your holdings in any one sector – whether it's banks or resources or building materials – is just madness.

Whenever we look at our portfolio, we try and think about a diverse group of assets. We ask ourselves: are they reasonably priced and if the world changes its view next week, can we justify holding them and will they be larger companies in three years' time? That's all you can really do, because at the moment, so many things are unpredictable. Nobody has ever seen governments printing money; nobody has ever seen cash rates overseas at 0 per cent; nobody has ever seen rates in Australia at 2 per cent. These are unprecedented times.

All you can do is focus on holding good quality assets with underlying fundamentals to justify them.

Q: There is a good deal of caution with investors at the moment. Do you see anything on the horizon that might change the investment appetite of investors?

MD: People are very nervous and for good reason. There are a lot of issues around the world to contend with. You have this wall of money being printed out of the US. If you want to be hairy chested and take some bets, then follow the money, because it always flows into asset markets and we've already seen that happen in the US.

But in terms of the change that could come out of left field, I think it's about the inflation risk that could be generated from this wall of money that has been around for a long time. I suspect that the winding back of this is going to be a very slow process. People in the US get nervous because the bond buying program is finished, but there is still this wall of money out there that hasn't been reeled back yet. And Europe is really only at the beginning of its QE policy. So, this latent inflation risk is probably one we should be aware of.

And the important point here is that central banks around the world – and I think the RBA is the prime example – absolutely do not value, or very belatedly value, the risks associated with asset price inflation versus the normal goods and services inflation. We've seen that the RBA has underestimated that impact consistently over the last 15 years.

AT: In terms of QE, it took me a while to understand its effects. I kept on hearing that all QE was doing was making rich people richer and poor people poorer. And at the time, I couldn't understand it but now I do.

With all this weight of money as a result of QE, all it's done is push asset prices up. So, if you own a house and a portfolio of shares, then you're winning. But if you don't own a house and a portfolio of shares, then it becomes more expensive to buy them. That's the truth about QE. It's creating this longer term social impact that at some stage has to be readdressed.

AD: When you compare Australia to other countries, we are in a much stronger position. Do not underestimate how powerful and how fantastic the RBA is as a central bank. We set our own monetary policy. Ireland did not, instead, it imported monetary policy. Ireland had very low interest rates that were set for Germany and France, which were growing.

Australia also has a market where 92 per cent of mortgages are variable rate. So, when the RBA cuts rates, the actual impact to the economy is sharp and fast. And that's the same when rates are moving back up. The economy is able to be managed very well.

But, you can look at the US where the system is completely the opposite. It's about 90 per cent fixed rate mortgages. Therefore, you have a very blunt instrument in interest rates. And that's in part why you're not seeing the effects of the easing of monetary policy and the weight of money flowing down to the underlying economy.

So, that's one thing on the positive side for Australia.

The one thing that does need to be discussed is that of demographics and population analysis. As investors, I think we have to be extremely conscious of what demographic and population trends do to investments.

In Australia, we have about 2 per cent population growth, which the experts are revising back down to about 1.5 per cent. This means that cities like Brisbane and Melbourne will probably commit to overbuilding the number of dwellings they're likely to need probably in late 2016 and 2017, and Sydney about one year after that.

A huge amount of people who have migrated to Australia for economic reasons are now choosing to leave. If inbound migration is about 190,000 people, about 50,000 people are leaving each year. We just need to be conscious of this. I'm not saying it's a near-term risk, but you need to factor it into your thinking.

Thankfully, we have the luxury of time to respond to these issues and Australia has learnt from other economies. You only have to look at the personal savings rate in Australia. Even though we're at about 6 per cent unemployment, we have a personal savings rate of about 10 per cent, which is phenomenal. That's a great cushion. And it's one of the reasons we can be positive about the Australian economy.

We need to refocus on resetting and recalibrating, and maximising those capital returns that we've enjoyed here. This will set us up well for the future.

PH: Despite the fact that we have these great lessons from overseas to learn from, we seem to be intent on repeating them. We now have about 2 million landlords in Australia and they own over $1 trillion worth of property and over $500 billion in debt. And if you look at the P&L that they collectively run, they are losing money, which is really not a great return for a $1 trillion investment. You have to ask yourself: why do they buy? The answer is, they expect capital gains.

To me, buying a negative cashflow investment for capital gain has a name: speculation. Speculation runs on sentiment and sentiment can turn on the proverbial dime. If those people buying these properties were not sure that property prices were going up or were concerned about their job, then they would act differently.

This speculative problem is just not confined to Sydney and Melbourne. Firstly, Sydney is one-third of the total value of Australian residential real estate, and when combined with Melbourne, it's more than half.

Some regional cities, like Wagga Wagga with a population of 48,000 people and a lot of space to grow, has more expensive housing and higher price/income ratios than Chicago. Property is expensive almost everywhere in Australia.

TS: Back in the mid-80s prior to 1987, I remember a presentation where we were advised to 'Keep on dancing but dance closer to the door'. But I just don't believe in this notion of 'keep on dancing'. Instead, when the pendulum has gone through, you need to start working straight away.

Some of the issues discussed on this panel may be beyond the tipping point. Investor housing is one of them. So, the day that starts tipping the other way, the whole market will change in a heartbeat.

I like looking at the drivers and drawing graphs and looking at the graphs. Inflation is one of them, unemployment is another one of them. We've talked about yield stock, particularly with the banks. Clearly, a rise in unemployment will start to challenge their bad debt provisions and that could change the scene fairly quickly.

So, you've got to think about those drivers: employment/unemployment and inflation.

Once you start getting to full employment, you get the other situation where you start to get wage growth and that could

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provide an inflationary effect. Inflation will change interest rates and that's the big driver of all the things we've been talking about. Governments all around the world are trying this experiment with inflation to see if they can get out of paying the debt that they've created, while continuing to grow.

Q: The only lead governments have taken is to reduce cash rates to 0 per cent. What should they be doing now to get the world back to growth?

TS: With interest rates where they are now, the Australian Government has a fantastic opportunity to borrow and invest in infrastructure. We're borrowing to invest in annual expenditure to fund deficits, when in fact, the infrastructure opportunities are right there in front of us. And where the bond rate is, you can't tell me there aren't potential projects all over the place.

AT: And that applies all over the world. But it's difficult to get this consensus of support in a democracy. In China, it's a lot easier to do. I think governments understand the benefits and productivity that infrastructure projects bring, particularly when you include the private sector to help fund projects, but it just doesn't seem to be happening.

MD: I think infrastructure should be supplemented where it can be through recycling assets, as Premier Mike Baird is doing in NSW. For example, selling the poles and wires and investing in something else that will build productivity. I think that's a good adjunct to leveraging off the low interest rates. But the political cycle is too short and governments are less inclined to make the hard decisions for long-term benefit.

AT: Well, there's not too much more governments can do apart from keeping interest rates low and hope they can engineer some sort of recovery. They need to keep things stable as they have been. When you look at the last five years, governments have generally been able to stabilise things. Confidence is reasonably good and people are relatively calm, compared to the GFC and Euro crisis a few years ago. So, as it happens, that's not a bad result. But is it sustainable?

AD: There is a psychology here. Australians are very much like the Germans – we don't want to carry debt. Australia is triple A backed and we also have one of the most liquid currencies in the world, but there's still this psyche around 'we don't want to carry debt'.

What is actually going to change that psychology is if the unemployment rate in Australia starts to move upwards – and this is something the RBA focuses on continuously – then the Government will have a mandate for change to get in, borrow and create jobs.

The RBA has been focused on the lack of improvement in productivity. Infrastructure brings huge gains in productivity. You're building infrastructure for GDP growth much higher than the current very low 2 per cent. Productivity gains are phenomenal and they benefit the entire economy.

So, I think we're in that limbo period where the Government doesn't have the mandate yet to do that. The tipping point will be a rise in unemployment.

PH: The problem in Australia has been that since the GFC crisis to the end of 2014, every last single dollar net lending in our banking system has gone to residential mortgages. Clearly, these are lifestyle assets that are not productive and have led to higher and higher household debt levels. So, there has been a capital misallocation. It's not something that the Government can easily control.

But I would certainly agree that if there is an issue on the housing side, and people don't want to gear up anymore, then Government spending in infrastructure could make a big difference.

Q: How do you view the Australian economy and share market over the next few years?

PH: In terms of the Australian market, or any equity market, it's absolutely impossible to forecast any returns shorter than five to seven years. We look at all stocks and we also look at the position from top down. Australia doesn't look particularly expensive. I think there are parts, like the banks, that are expensive, while other parts are not.

AT: Always be careful when you're talking economies and share markets. Often, a strong economy means a weak stock market, because people worry about inflation and interest rates. The argument for the local economy and economies around the world is that I don't see any boom around the corner. Interest rates can't really get much lower. We are in a period of lacklustre growth with low interest rates for a while. It will start to feel like a recession because nothing much is happening.

But the one big advantage we have in Australia is the massive superannuation pool that we have accumulated. If companies can wisely tap into that and use it to grow, like Sonic Healthcare and Amcor have done, they will be able to grow their earnings. And there are companies that are restructuring, like Caltex and GWA, which are selling off non-performing assets.

So, we are in this low growth environment. Inflation doesn't look like it will be on the horizon for a while and interest rates don't look like they'll go up in a hurry. That's the environment you're going to have to work in.

TS: We're clearly in a low growth market. So, the businesses you're going to invest in are ones that have fantastic customer propositions, great pricing power and they've got large growing investment markets. Essentially, these are businesses that can do something in Australia and then take it to other jurisdictions.

The challenge for most advisers investing in these types of companies is that they are expensive because everybody recognises that they're expensive. And so, you just have to take a long-term view.

If you're taking a two year view, a lot of these stocks you already know the names of – like Ramsay Health Care or Domino's Pizza – all look very expensive. But if you think they can do it for five years or 10 years, then they're cheap.

And so, if you concentrate on those types of businesses, you can probably get good double digit earnings growth out of a portfolio.

Financial Planning magazine thanks the participants for their insights.

The National Disability Insurance Scheme: friend or foe?

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THIS ARTICLE IS WORTH
0.5 CPD HOURS
CRITICAL THINKING

Includes

- **Eligibility criteria for NDIS cover**
- **Outline of what the NDIS provides**
- **How the NDIS impacts insurance advice**
- **The National Injury Insurance Scheme**

The National Disability Insurance Scheme (NDIS) was launched in July 2013 and will progressively roll out throughout Australia over the six years to July 2019. The scheme has been eagerly awaited by those suffering from serious disabilities, as well as their carers and families.

However, given the name 'Disability Insurance' there are serious concerns that the scheme may be confused with life insurance products, giving people the incorrect belief that they are covered for certain disablements when they are not, and resulting in an even greater level of underinsurance.

As an advice provider, it is important to know the difference between what this scheme provides when compared with personal insurance cover like Income Protection, Total and Permanent Disability (TPD) or Trauma insurance, in order to educate your clients and cater for the scheme in any insurance needs analysis.

Background

The NDIS is a national scheme designed to provide a holistic and life time care approach to support those suffering from a serious and permanent disability. It replaces the previous state-based schemes that resulted in differing levels of care, dependent on an individual's state of residence.

While the program had been lobbied for in numerous formats over previous decades, it was the Productivity Commission's 2011 report, *Disability Care and Support*, which set out the economic and social case for the scheme.

The report found:

- Most families and individuals cannot adequately prepare for the risk and financial impact of significant disability. The costs of lifetime care can be so substantial that the risks and costs need to be pooled.
- The current disability support system was underfunded, unfair, fragmented and inefficient, and gave people with a disability little choice and no certainty of access to appropriate supports.
- There should be a new national scheme – the National Disability Insurance Scheme (NDIS) – that provides insurance cover for all Australians in the event of significant disability. Funding of the scheme should be a core function of government (just like Medicare).
- The main function (and source of cost) of the NDIS would be to fund long-term high quality care and support (but not income replacement) for people with significant disabilities. Everyone would be insured and around 410,000 people would receive scheme funding support.
- The NDIS would have other roles. It would aim to better link the community and people with disabilities, including by using not-for-profit organisations. It would also provide information to people, help break down stereotypes, and ensure quality assurance and diffusion of best practice among providers.

The National Disability Insurance Scheme Act 2013 (NDIA) was passed by the Gillard Government and sets out how the scheme will operate including:

- The objects and principles under which the NDIS will operate;
- How a person can become a participant in the NDIS;
- How a participant's individual, goal-based plan is prepared and reviewed, including how the NDIA approves the funding of reasonable and necessary supports;
- How a provider can become a registered provider of supports;
- The governance arrangements for the NDIA, including its CEO, Board, Independent Advisory

Council, and Actuaries; and
- A process for internal and external review of certain decisions made under the NDIS Act.

The Act should be read in conjunction with the NDIS Rules, which are being progressively built and provide a greater level of detail.

The name

The moniker – National Disability Insurance Scheme – was almost immediately criticised by life insurance industry representatives. They argued that using the term 'insurance' could incorrectly give people the perception that they were covered by a national, government-funded policy, and would no longer need to provide for their own private insurance needs.

Former Financial Services Council chief executive officer, John Brogden, was one of the fiercest opponents, highlighting in numerous submissions and public statements how implying the scheme was insurance could drastically exacerbate Australia's underinsurance problem.

In response, the then Minister for Disability Reform, Jenny Macklin, announced the scheme would be renamed Disability Care Australia as of March 2013. While this change was welcomed by the life insurance and advice industries, there was discontent from some quarters, including People With Disability Australia president, Craig Wallace, who labelled the new name 'patronising'.

At the time, the then Opposition leader, Tony Abbott, made a commitment that a Coalition Government, if elected, would revert back to the original name. Following its election win, the new Minister for Disabilities, Mitch Fifield, announced that the scheme would return to its original moniker.

After all this 'toing and froing', it seems unlikely that the name of the program will change again, particularly given that it will become increasingly expensive as the program rollout gathers pace. This therefore cements the need for advisers to play a strong role in ensuring their clients understand what the NDIS does and does not cover.

Who does the NDIS cover?

Eligibility is based on three requirements; age, residency and level of disability.

Age
Participants must be under the age of 65 when they become disabled, as well as when joining the program. Once in, lifetime coverage is provided.

Residency
Participants must reside in Australia, be a citizen or have the appropriate visa. In the initial roll-out, only certain areas are covered and people must be a resident of these areas to be eligible participants.

Level of disability
Participants are also required to be permanently disabled.

The Act sets out when a person meets the disability requirements:

a) the person has a disability that is attributable to one or more intellectual, cognitive, neurological, sensory or physical impairments, or to one or more impairments attributable to a psychiatric condition;
b) the person's impairment or impairments are, or are likely to be, permanent; and
c) the impairment or impairments result in substantially reduced functional capacity to undertake, or psychosocial functioning in undertaking, one or more of the following activities: communication, social interaction, learning, mobility, self-care, self-management; and
d) the impairment or impairments affect the person's capacity for social and economic participation; and
e) the person is likely to require support under the NDIS for the person's lifetime.

This makes it clear that the level of disability required to access the scheme is much higher than the definitions used for Income Protection or Total and Permanent Disability (TPD) policies, which are usually occupation-based. Parts of the definition are closer to an activities of daily living style assessment, which is generally considered to be the strictest disability definition used in today's life insurance contracts.

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It is instructive to compare the expected number of participants with those claiming the Disability Support Pension (DSP).

DSP is available for individuals aged 16-64 who are suffering from a treated and stabilised disability that results in being unlikely to work again for more than 15 hours per week in the next two years. In most cases, this means the disability is permanent. It is also means tested, in that the assets and income test applies. In June 2013, 821,738 people were claiming DSP.

The NDIS has a wider age eligibility, being from birth to age 64. It is not means tested. Yet the number of expected participants is significantly lower at 460,000 (up from the Productivity Commission's initial estimate of 410,000).

Who misses out?

People aged 65 or over, or due to turn 65 before their region is covered, will not be eligible. In addition, anyone with a temporary and/or curable disability, such as depression, diabetes and cancer, will not be eligible, unless all possible treatment options have failed.

What does the scheme provide?

The scheme provides services, rather than money. It is not an income replacement or compensation scheme. While households may be provided with some financial relief by having services provided that would otherwise need to be paid for, the NDIS will not change the income and/or assets of the family.

Participants will have the opportunity to work with a case worker to develop a specialised support plan of services and equipment. The Productivity Commission provided a long list of services, which may be provided including:

- Aids and appliances, which include artificial limbs and communication aids;
- Home and vehicle modifications, to cater for the disability;
- Personal care, to help take care of themselves in their own home, which may include the following activities:
  - showering, bathing, dressing, grooming, toileting and personal hygiene;
  - eating and/or drinking;
  - mobility and transfers;
  - regular maintenance of health, which include use of medication and routine exercises;
  - nursing care, for individuals who require additional level of care and support, such as those who are quadriplegic and on a ventilator;
- Support for community access, to allow personal enjoyment, social interaction and leisure;
- Respite, to provide people with a disability, their primary carers and families with a short break and/or holiday programs;
- Specialist accommodation support, such as group homes and alternative family placement;
- Domestic assistance, to provide support for people with a disability to have the freedom to live on their own in the community and complete tasks such as preparing a meal, banking, shopping, doing certain activities and attending appointments;
- Transport assistance, to co-ordinate individual or group needs to commute;
- Employment assistance and support for transition to work, to help people find and prepare for work;
- Therapies, such as counselling and physiotherapy;
- Emergency support, in the event of a family member or carer's death, with organising emergency accommodation and respite services; and
- Guide dogs, which may include the costs of the dog, training and veterinary services.

Timeline

The scheme will roll out slowly, but progressively, with NSW being the first state with full coverage due in July 2018. All other states are expected to have full coverage by July 2019.

All states and territories have signed up to the scheme, with the sites below having launched in July 2013.

Hunter Region NSW	Ages 0-64
Barwon Region VIC	Ages 0-64
South Australia	Ages 0-13
Tasmania	Ages 15-24

Additional sites commenced in July 2014 in the ACT, the Barkly Regional of the Northern Territory, and the Shires of Kalamunda and Mundaring and the City of Swan in Western Australia.

In 2015, additional sites commenced on 1 July for children and young people under the age of 18 in Western Sydney and the Blue Mountains regions. Queensland is the only state without any trial sites, and at the time of writing, the only available information pointed to a July 2016 launch.

Individuals suffering from a disability, and their families, are eagerly awaiting rollout in their areas. For those approaching 65, however, the timeline is of the utmost importance. If the NDIS commences where they live before turning 65, then the individual will have lifetime coverage. If rollout takes place after age 65, the NDIS will not be available for them.

How will the NDIS impact insurance advice?

Since the launch of the scheme, insurers have received a small number of calls from policyholders to cancel their Income Protection, Total and Permanent Disability (TPD) and Trauma insurance, due to the understanding that they would now be covered under a Government safety net.

From July 2014, the number of queries from policyholders increased as the Medicare levy rose from 1.5 to 2 per cent to partially fund the scheme – meaning all Australians saw their take home pay packets reduce to fund the 'Disability Insurance Scheme'.

However, as can be seen from the above benefits and definitions, there is little overlap between what the NDIS provides and the benefits of disability life insurance policies.

Income Protection (IP)
IP provides an income stream to replace an individual's income in the event they cannot work, either temporarily or permanently, due to disability. The NDIS is not an income replacement scheme, and therefore cannot be relied upon to help maintain a families' lifestyle, continue to pay debts and cover expenses. The NDIS provides services, not money.

Trauma
Trauma pays a lump sum in the event an individual is diagnosed with a listed illness or injury. While 40-60 conditions may be covered, the majority of claims are for a small number of conditions. At BT, around two-thirds of claims are for cancer, this rises to over 80 per cent for women. In the majority of cases, cancer will not be covered under the NDIS, as it is not a permanent disability.

Consider the types of items normally allowed for in a trauma needs analysis, including medical expenses, top-up income, debt reduction, time off work for a spouse, and even family holidays – none of these will be covered by the NDIS. It is important to note that the NDIS does not provide for medical treatment, as that is the role of Medicare.

TPD
While TPD most closely aligns to the NDIS, in that the disability is permanent, the level of disability required under an 'any' or 'own' occupation definition is not of the level required for the NDIS. Therefore, many policyholders will have successful claims for TPD, but not necessarily qualify for NDIS support.

Needs analysis often allows for reduction of debt, top-up income, child education costs and/or a pool of funds for possible home modifications and medical treatment. There may be some overlap with the last item, but it is difficult to predict whether the disability will be of the severity level that it also qualifies for the NDIS.

While there is little overlap between the cover types, the most important task for advisers is to spend a moment explaining what the NDIS is, and how it could compliment the insurance being put in place. At a very simple level, insurance policies can protect an individual financially, while the NDIS may provide access to support and services.

The National Injury Insurance Scheme

Finally, the NDIS may not be the end of the federal reforms. The Productivity Commission recommended that a separate scheme is needed for people requiring lifetime care and support for catastrophic injuries, such as major brain or spinal cord injuries. This no-fault National Injury Insurance Scheme, comprising a federation of individual state and territory schemes, would provide fully-funded care and support for all cases of catastrophic injury.

It would draw on the best schemes currently operating around Australia. State and territory governments would be the major driver, with the Productivity Commission recommending the development of a comprehensive scheme by 2015.

No further information has been made public and the scheme has not progressed. However, it is one to look out for, particularly if there is a change of federal government in 2016.

QUESTIONS

1. The National Disability Insurance Scheme (NDIS) is scheduled to reach full rollout from:

a. 1 July 2016.
b. 1 January 2018.
c. 1 July 2019.
d. 1 January 2021.

2. The National Disability Insurance Scheme (NDIS) may provide the following:

a. Aids and appliances, lump sum monetary compensation and guide dog assistance.
b. Home modifications, pharmaceuticals and transportation assistance.
c. Personal carers, respite services and employment support services.
d. Emergency support, income replacement and vehicle modifications.

3. After July 2019, which of the following individuals would be covered by the NDIS?

a. Mike, age 40, who is a quadriplegic.
b. Bryce, age 75, with Parkinson's disease.
c. Mitch, age 51, with a broken leg.
d. Jason, age 19, suffering from mild anxiety.

4. Which of the following statements is correct? The National Injury Insurance Scheme (NIIS):

a. commenced on 1 July 2015.
b. was recommended by the Productivity Commission.
c. is designed to cover temporary and permanent disabilities.
d. is designed for professional sports people.

Conclusion

The NDIS is an important scheme that will provide a greater level of support to individuals with a severe and permanent disability, their families and carers. It has bipartisan support from both major political parties, so while the rollout is referred to as 'trial sites', the program is extremely unlikely to be halted.

This means, as an industry, we need to work together to inform and educate Australians as to the value of their insurance coverage and the continuing need for private insurance to compliment the NDIS coverage. Without this education, we may see an even greater number of Australians without adequate insurance.

Katherine Ashby, Senior Product Technical Manager, BT Financial Group.

RACHEL LEONG
BT

THIS ARTICLE IS WORTH
0.5 CPD HOURS
CRITICAL THINKING

Includes

- **Impact on disposable income**
- **Tax deductions**
- **Tax on proceeds**
- **Retirement savings**

The financial impacts of insurance funding options

The method of premium payment may be restricted, and in some cases determined, by the way life insurance is structured. Often the client doesn't control which structure is used, such as with employer arrangements or group schemes. In other circumstances, the client may be deciding between owning insurance inside or outside superannuation.

If insurance is owned inside super, there are several ways to fund premiums and therefore several different financial outcomes. For example, concessional contributions may be used, which could result in a reduction of taxable income. Alternatively, the client may use an existing super balance, however, this will result in a decrease to retirement savings.

In this article, we look at the financial implications of various funding options, such as the impact on disposable income, tax deductions, tax on proceeds and retirement savings.

Ordinary policies

An ordinary owned policy is a policy owned outside super. It may be owned by a person, a company or a non-super trust. Usually, it is owned by the life insured, and will be wholly funded from disposable income, which has an immediate negative effect on take-home pay.

The benefits of an ordinary owned policy include:

- full access to an insurer's product suite;
- the ability to own a feature-rich policy;
- the availability of a tax deduction for income protection (IP) insurance;
- the absence of tax on lump sum proceeds; and
- no effect on retirement savings.

In addition, as ordinary policies are not subject to the same legislation as super-owned policies, payment of proceeds will not be inhibited by super law restrictions.

Super-owned policies

Super policies may be funded in a number of ways, such as:

1. voluntary concessional contributions;
2. non-concessional contributions;
3. accumulated savings or mandated employer contributions; or
4. a rollover of 3.

Disposable income

Unlike ordinary insurance, owning insurance inside super will have a smaller or no effect on disposable income, provided contributions to super are being made to fund the premiums. If voluntary concessional contributions are used, a lower amount of gross income is required to fund the same premium amount, and if accumulated savings or mandated employer contributions are used, this will not impact disposable income at all.

Tax savings

Tax savings for the member/client

Voluntary concessional contributions lower the tax liability of the individual as a result of:

- lower assessable income through salary sacrifice (for employed individuals); or
- lower taxable income through claiming a tax deduction on personal contributions to super (self-employed, substantially self-employed, unemployed or retired individuals).

A client's ability to claim a tax deduction on personal contributions to super does not solely relate to whether they are self-employed, substantially self-employed, unemployed or retired[1].

Other important factors may influence their claim, such as whether the client has provided a 'notice of intent to claim a deduction for personal super contributions' (290-170 notice) within the required timeframe; and whether any withdrawals or rollovers have occurred, subsequent to when the relevant contributions were made.

A policy may be funded on a

perpetual basis through ongoing rollovers. Therefore, the client needs to be aware of when this will occur each year, and ensure that their 290-170 notice is submitted to (and acknowledged by) the original super fund prior to the rollover.

When a rollover of the full contribution occurs after personal contributions are made (but prior to the submission of a 290-170 notice to the super fund), the original fund no longer holds the contribution, and a tax deduction is completely unavailable to the client. When a partial rollover occurs, this will result in a lower tax deduction being available[2].

Tax savings for the super fund trustee
The super fund trustee can claim a tax deduction on premiums paid. The deduction is usually passed back to the individual's super fund account, however, the trustee has complete discretion. Therefore, the way any 'premium rebate' is applied may differ across trustees. The premium rebate may apply to all contributions, concessional contributions only, rollovers only, or any other combination that the trustee decides on. Advisers should be mindful to check what the arrangement is with each super fund.

Tax on proceeds
Income Protection (IP) proceeds will be taxed at marginal tax rates and there are specific provisions for IP proceeds paid through super that prevent rebates or tax concessions applying. Therefore, IP proceeds received through super or directly from the insurer (ordinary) will be taxed in the same way. Lump sum insurance proceeds, however, may be taxed differently when paid from super.

TPD and Trauma policies
The tax treatment of TPD and pre 1 July 2014 Trauma policies, where proceeds are paid from super, is shown in Table 1.

For non-accumulation insurance accounts, the tax-free component will be comprised entirely of the disability super benefit. The disability super benefit can be calculated if two legally qualified medical practitioners certify that because of ill-health, it is unlikely that the individual can ever be gainfully employed in a capacity for which they are reasonably qualified because of education, experience or training.

> The formula for the disability super benefit is: super lump sum x days to retirement / total days.

Days to retirement refers to the number of days from when the disability occurred, through to the individual's date of retirement (usually age 65). Total days refers to the number of days from the eligible service date (usually the first date of contribution) through to the date of retirement.

If the number of service days are lower (number of days from first contribution date [known as 'Eligible Service Date' (ESD)] to the date of disability), the days to retirement will be higher. This will result in a larger tax-free portion and therefore a lower overall tax liability.

In order to ensure the shortest service period possible, insurance cover could be housed in a super account separate to accumulated savings, and premiums should be funded from contributions only. If a rollover is used at any time, this will also transfer an earlier ESD, which may result in a larger tax liability at claim time.

Term Life policies
The tax treatment of Term Life proceeds paid from super is shown in Table 2.

The taxable (untaxed) element applies when the super fund trustee claims a tax deduction for premiums paid, or for a future liability to pay a benefit. Therefore, a tax rate of up to 32 per cent will generally apply on Term Life insurance proceeds paid from super.

> The formula for the taxable (taxed) element is: death benefit x service days/total days – tax-free component.
>
> The taxable (untaxed) element is: death benefit – tax-free component – taxable (taxed) element.

In a non-accumulation super account, there will not be any tax-free component.

A higher tax rate applies to the taxable (untaxed) element (32 per cent) compared to the taxable (taxed) element (17 per cent). The larger the service period, the larger the taxable (taxed) element, and therefore, the lower the total tax liability. To create a larger service period,

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Table 1

Age	Component	Tax rate (including Medicare levy)
Age 60 or older	Any	0%
Preservation age < age 60	Tax-free	0%
	Taxable under $185,000 (2014/15)	0%
	Taxable above $185,000 (2014/15)	17%
Under preservation age	Tax-free	0%
	Taxable	22%

Table 2

Beneficiary	Component	Tax rate (including Medicare levy)
Dependant	Any	0%
Non-dependant	Tax-free	0%
	Taxable (taxed)	17%
	Taxable (untaxed)	32%

insurance could be held with accumulated savings, or a rollover could be used to fund part/all of the premium.

Terminal illness proceeds will be paid tax-free under the terminal medical condition of release from super. The Government recently announced that regulations will be changed to expand the terminal medical condition of release definition, proposed to commence from 1 July 2015. Each insurer will consider whether to align their insurance definition to the longer timeframe allowable under the condition of release, which will depend on any additional risk to the insurer and whether any price increases are anticipated.

Retirement savings

Using accumulated savings, mandated contributions or a rollover of the same will have the effect of reducing retirement savings. If voluntary concessional contributions (either salary sacrifice or personal deductible contributions) or non-concessional contributions are made, this may offset any reduction to retirement savings. For low income earners, non-concessional contributions may result in the co-contributions being payable, which can result in either additional retirement savings or the ability to obtain a higher level of insurance.

Note: If insurance is held in an insurance-only account, the co-contribution will need to be paid to an accumulation account.

Contribution limits

If any concessional or non-concessional contributions are made, contribution limits will apply. While non-concessional contributions do not usually pose an issue when funding insurance inside super (unless large after-tax contributions are being made at the same time), it is not the case for the concessional contributions. Part of the concessional limit may have already been used due to mandatory super guarantee contributions being made on behalf of an employee.

Further, the concessional contribution limit (despite having risen over recent years), is low at $30,000 for those under age 50, and $35,000 for those age 50 or older (2014/15).

In addition, individuals approaching retirement may prefer to utilise their full concessional contribution limit for retirement savings, rather than diverting part of these contributions to insurance.

SMSF-owned policies

While the same tax deductions are available to any type of super fund, it is much more likely that self-managed super funds (SMSFs) will utilise the tax deduction available for a future liability to pay benefits. SMSF trustees can choose between this and the tax deduction available for payment of insurance premiums. However, if trustees elect to claim the tax deduction for a future liability to pay benefits, they cannot claim a subsequent tax deduction for payment of premiums.

The benefit of using the future liability tax deduction is that it is a much larger amount compared to the premium.

> The future liability tax deduction is: benefit amount x future service days/total service days.

This tax deduction can be carried forward to offset income for future years, provided the entire tax deduction is not used in the current financial year. Using the future liability tax deduction can mean that the super fund may not pay income tax for several years. However, in order to take advantage of this strategy, there would need to be members that continue in the accumulation phase.

Employer-paid policies

Employer-owned or super-owned policies

When an employer owns and pays for a policy on behalf of an employee, it may be as an incentive to work for them, and therefore forms part of the employee's salary package. In this instance, there is no impact to the employee's disposable income. A tax deduction will be available to the employer, regardless of whether the policies are owned by the employer (ordinary policy) or by the super fund trustee.

This is because an ordinary policy premium would be part of overall expenses incurred in the running of a business – i.e. revenue expenses (which are tax deductible) and a super policy would be funded from employer contributions (which are also tax deductible).

Table 3

Type of lump sum insurance	Employer-owned and paid policies	Super-owned and employer-paid policies
Term Life	Death benefit termination payment rates apply: • paid to tax dependant, tax-free up to $185,000 and 49% on amounts above (2014/15) • paid to non-tax dependant, 32% on amounts up to $185,000 and 49% on amounts above (2014/15)	Death benefit rates apply: • paid to tax dependant, tax-free • paid to non-tax dependant, up to 32%
TPD or trauma[3]	Life benefit termination payment rates apply: • Preservation age or older, 17% on taxable component[4] under $185,000 and 49% on taxable component above (2014/15) • Under preservation age, 32% on taxable component[4] under $185,000 and 49% on taxable component above (2014/15)	Super lump sum rates apply: • Aged 60 or older, tax-free • Aged between preservation age and 60, 0% on taxable component up to $185,000, 17% on taxable component[4] above (2014/15) • Aged under preservation age, 22% on taxable component[4]

If group insurance is available to the employee at their cost, it would normally be done via super, funded from salary sacrifice contributions. Again, as with any other employer contributions, this amount would be tax deductible to the employer.

Income protection proceeds will be assessable income (no rebates or tax concessions apply, regardless of age), regardless of whether they are paid from super or from the employer. However, there will be a significant difference to tax paid on lump sum proceeds.

Table 3 compares the tax treatment of Term Life, TPD and Trauma payments from an employer and super fund.

Therefore, for Term Life sums insured that are more than $185,000 (2014/15), a higher total tax bill will apply to proceeds that are paid by the employer to the beneficiary, compared to being paid from super. Further, at any age bracket, the tax rates on TPD or Trauma proceeds are much higher when proceeds are paid by the employer.

While the employee may not be able to control the method of funding, and hence the insurance structure, this will have a substantial effect on net proceeds received. As the same tax deductions are available to the employer either way, superannuation may be the natural home for employer-funded insurance, and often is.

Employee-owned policies
If the policy is owned by the employee but paid by the employer, fringe benefits tax may apply on lump sum premiums. However, fringe benefits tax will not apply to IP premiums due to the otherwise deductible rule (i.e. the employee would have been able to claim a tax deduction on IP premiums if personally-owned).

As the proceeds will be paid to the employee, lump sum proceeds will not be subject to capital gains tax (CGT), but IP benefits will be taxable at marginal tax rates.

Conclusion

In an ideal world, all clients would have personally-owned insurance to remove any issues associated with super from the outset. However, personally-owned insurance could have a significant impact to disposable income, which for many clients, is unaffordable. This demonstrates that when insurance is wholly owned and funded through one avenue, there will be advantages and disadvantages regardless of which option is chosen.

Flexible linking addresses this issue and allows clients to utilise multiple ownership structures to get the best of both worlds. It allows clients to have extensive cover without super restrictions, while funding as much as possible from super (and therefore alleviating cash flow).

Income linking builds on the concept of flexible linking. IP plus policies provide the most comprehensive cover available, with the broadest definitions and many useful ancillary benefits. A solution to any potential issues with additional cost is an income linking plus (super-linked IP) arrangement, which allows clients to obtain complete IP cover, while funding the majority of the premium from super.

Rachel Leong, Product Technical Manager, Life Insurance, BT.

QUESTIONS

1. The tax rates for super-owned employer-paid TPD insurance proceeds are…

a. lower than the tax rates for a life benefit termination payment at all ages.
b. higher than the tax rates for a life benefit termination payment at all ages.
c. lower than the tax rates for a life benefit termination payment for some age brackets.
d. higher than the tax rates for a life benefit termination payment for some age brackets.

2. Income protection proceeds will be taxed at marginal tax rates if they are received from:

a. directly from the insurer or from super.
b. an employer.
c. both of the above.
d. none of the above.

3. A tax deduction for a future liability to pay benefits may be able to reduce an SMSF's tax liability for:

a. the financial year that the tax deduction is initially claimed in only.
b. the current and future financial years.
c. future financial years only.
d. 2014/15.

4. The potential effect(s) of a rollover to fund Term Life insurance inside super includes:

a. a lower overall tax liability on term life proceeds.
b. a reduced/nil ability to claim a tax deduction on personal contributions to the original super fund.
c. both of the above.
d. none of the above.

Footnotes

1. Clients should seek guidance from their accountant to determine whether they are eligible to claim a tax deduction on their personal contributions to super.

2. A rollover that is used to commence a pension, using any part of a personal contribution, will result in a tax deduction being unavailable on the whole contribution.

3. Pre 1 July 2014 trauma policy if owned inside super.

4. Disability super benefit/ invalidity segment may apply. This will reduce the amount of taxable component in the employment termination payment/super lump sum.

Quarterly Complaints

– April to June 2015 –

The FPA is committed to informing members and the community of the trends and outcomes of complaints and disciplinary action in the financial planning profession. It is important for members and the community to be confident that the profession takes a strong position on the protection of the reputation of financial planners by responding to breaches of its professional expectations.

As well as communicating the activities of professional accountability, our goal is to assist members in appreciating the types of complaints received, to encourage members to consider their own practices, and to provide guidance for complaint protection.

Disciplinary Activity Summary

In the June 2015 quarter (April to June 2015), the FPA received four new complaints, finalised three investigations and has eight ongoing investigations.

COMPLAINTS AND DISCIPLINARY REPORT April to June 2015	
Investigations ongoing as at 31 March 2015	7
New investigations	4
Investigations closed	3
Investigations ongoing as at 30 June 2015	8
Members suspended	0
Members expelled (CRC)	0
Members Terminated (Constitution)	0
Other Sanctions (CRC)	0
Referred to Professional Designations Committee for Sanction	0

Of those ongoing investigations, one matter was reported to the FPA's Conduct Review Commission (CRC) for consideration to issuing a Notice of Disciplinary Breach and one matter was subject of a hearing before a CRC Disciplinary Panel. The Panel is in the process of making a written determination in this matter, which will include a finding in respect of each alleged breach, as well as a statement of reasons for its determination.

Changes to the composition of the CRC

The CRC is independently chaired, supported by a panel of experienced members of the financial planning profession, relevant experts and members of the public, to regulate the conduct of members of the FPA and upholding the highest ethical standards within the financial planning profession.

Mark Vincent, a Sydney-based barrister whose expertise includes Administrative Law, Statutory Tribunals, Equity and Regulation, was recently appointed as the Acting CRC Chair. Mark had been the Deputy Chair for a period of about 12 months.

Separately, a number of CRC panel member appointments and re-appointments were approved by the FPA Board, including three new panel members. Each appointment was approved for a period of three years, effective 31 July 2015.

The panel currently comprises one legal practitioner, eight CFP® members and a financial advice consultant:

The FPA congratulates and welcomes the following new CRC members:

- Michael Chalmers CFP®
- Lisa Palmer CFP®
- Ragnhild Sky CFP®

The FPA thanks continuing members:

- Sandra Bowley CFP®
- Guyon Cates

Table 1: CRC Determinations

Case No	Member Details	Member No	Effective Date*	Member Category	Sanction
CRC 2014_1	Robert (Bob) Jones	38582	19 Sept 2014	CFP	Expelled, fined and costs of CRC Hearing

* Note: The Effective Date refers to the date of the event triggering the automatic termination, rather than the date the FPA became aware of the event.

Table 2: Summary Disposal

Case No	Member Details	Member No	Effective Date*	Member Category	Sanction
SD2015_1	Blinded	Blinded	15 Jan 2015	CFP	Reprimanded, fined and professional education

* Note: The Effective Date refers to the date of the event triggering the automatic termination, rather than the date the FPA became aware of the event.

and Discipline Report

- Greg Cook CFP®
- James Cotis CFP®
- Cherie Feher CFP®
- Dacian Moses CFP®
- Mark Vincent (Acting Chair)

The FPA expresses gratitude to the following outgoing members for their valuable contributions to the CRC over many years:

- Chris Benson CFP®
- Bruce Christie CFP®
- Michael Perkins
- Dr June Smith (Chair 2014/15)
- Brett Walker

The year in review

Once again, the Annual Report on Professional Standards will be published later on in the year, expected to be available on the FPA website in October 2015 (following publication of the FPA Annual Report).

The Annual Report on Professional Standards has been published on an annual basis since 2010, and contains insights into the FPA's work and developments broadly across the Professional Regulatory Framework, as well as specifically within the FPA's Professional Membership, Professional Conduct and Professional Accountability programs.

In the meantime, and at a very high level, during the 2014/15 financial year, our Professional Accountability program resulted in the following:

- We received a total of 30 formal complaints, a 36 per cent increase from last year;
- We finalised a total of 29 complaints, a 20 per cent increase from last year;
- As at 30 June 2015, we had eight outstanding complaints, compared to seven at the same time last year;
- Additionally, we received a total of 17 FPA Confidential matters and finalised a total of 19 matters. As at 30 June 2015, we had five outstanding matters, compared to six at the same time last year;
- We dealt with 84 instances of misuse or unauthorised use of either the FPA brand or CFP designation. This is an increase of 200 per cent from last year;
- We conducted a total of 74 Advice Reviews as part of the Cbus Referral Program;
- The CRC delivered a determination as a result of a Disciplinary Hearing. The member was expelled, fined and ordered to pay the hearing costs (see Table 1);
- The CRC issued an Infringement Notice for a Special Breach due to the member's non co-operation;
- A matter was finalised by Summary Disposal, enabling us to work co-operatively with the member (under the watchful eye of the CRC) to achieve a corrective professional regulatory outcome that fosters the protection of the profession and the community (see Table 2). The member was reprimanded, required to complete professional education and fined (see Table 2);
- We automatically terminated the membership of four FPA members by operation of the FPA Constitution (see Table 3).

We further fostered the protection of the profession and the community in responding to over 368 enquiries from members, consumers and other stakeholders in relation to professional standards related activity and guidance.

It should be noted that during the 2014/15 financial year, ASIC banned 19 individuals from practising as financial planners and of these, only one was a member of the FPA. It is noteworthy that of the 46 individuals banned by ASIC since 1 July 2012, only two were members of the FPA.

It should be noted that during the 2014/15 financial year, ASIC banned 19 individuals from practising as financial planners and of these, only one was a member of the FPA.

Table 3: Automatic Termination pursuant to FPA Constitution

Member Details	Member No	Effective Date*	Member Category	Reason
Stuart Jamieson	29884	17 May 2012	CFP	Authority terminated by AFSL for breach of the law
Michael Irwin	13235	18 Sept 2014	CFP	Banned by ASIC
Alan Kenyon	592	29 May 2012	AFP	Insolvent under Administration
Shane Thompson	26732	17 Feb 2015	CFP	Failure to pay monetary penalty

* Note: The Effective Date refers to the date of the event triggering the automatic termination, rather than the date the FPA became aware of the event.

Income Streams: a dream online

In August, some Department of Human Services clients receiving income support payments will be required to complete their Income Stream Reviews.

Income Stream Reviews are conducted when a client and/or their partner owns an income stream product.

Income stream products include account-based pensions and market linked pensions (also known as term allocated pensions), and they are reviewed each year in February and August.

The first thing to note is if your clients need to complete an Income Stream Review, they will receive a letter from the Department of Human Services informing them of the requirement to complete a review. If your clients do not receive a letter, they do not need to complete a review in August.

When it comes to doing the review, we've talked about myGov before, and it probably won't come as a surprise to hear that it's the best way to do it.

This is a great time to encourage your clients to sign up for myGov if they haven't already. Signing up now is going to save them time later on if they need to update their income and assets, or want to view their current rate of payment.

If your clients want to complete their own review using myGov, they will need to:

1. Access their Centrelink online account through my.gov.au where a list of all their reminders will be displayed in the 'Reminders' section.
2. Select their 'review reminder'. Their review reminder will show them step-by-step how to complete their review.

If your clients would prefer you to complete their Income Stream Review on their behalf, the quickest and easiest way for you to complete the review is also online. Once the review is submitted, it will automatically apply to the customer's record.

To do this, your clients will need to provide you with the unique One-Time Access Code that can be found in their review letter and their Customer Reference Number. You can then complete the review online by visiting humanservices.gov.au/incomestreamreviews

Your clients can also complete the review online using their access code.

Sometimes your clients may need to attach documents to verify the information provided as part of their Income Stream Review. Using the Document Lodgement Service, customers and nominees can now lodge documents with the department online, without the need to post anything or visit a service centre.

The Document Lodgement Service is available to people completing a review online using myGov or their access code, and is a convenient way to lodge any supporting documents that may be requested as part of the Income Stream Review process.

If you or your clients need further help completing the review online, visit humanservices.gov.au/onlineguides

myGov

So what about myGov? Why is it in your clients' interest to sign up and start taking advantage of it?

myGov has now been around for more than two years and has over 6.7 million active accounts.

The department offers Centrelink, Medicare and Child Support services on myGov.

Other myGov member services include the Australian Taxation Office, the Department of Veterans' Affairs, the Personally Controlled eHealth Record, the National Disability Insurance Scheme, and the Department of Employment with Australian JobSearch.

Once your clients have signed up for myGov they can choose which of these member services they would like to link to their account.

Given the range of Government online accounts available, financial planners are encouraged to introduce their clients to myGov if they haven't already done so. It's a simple way to access a range of Government services online. Simply visit my.gov.au to learn more.

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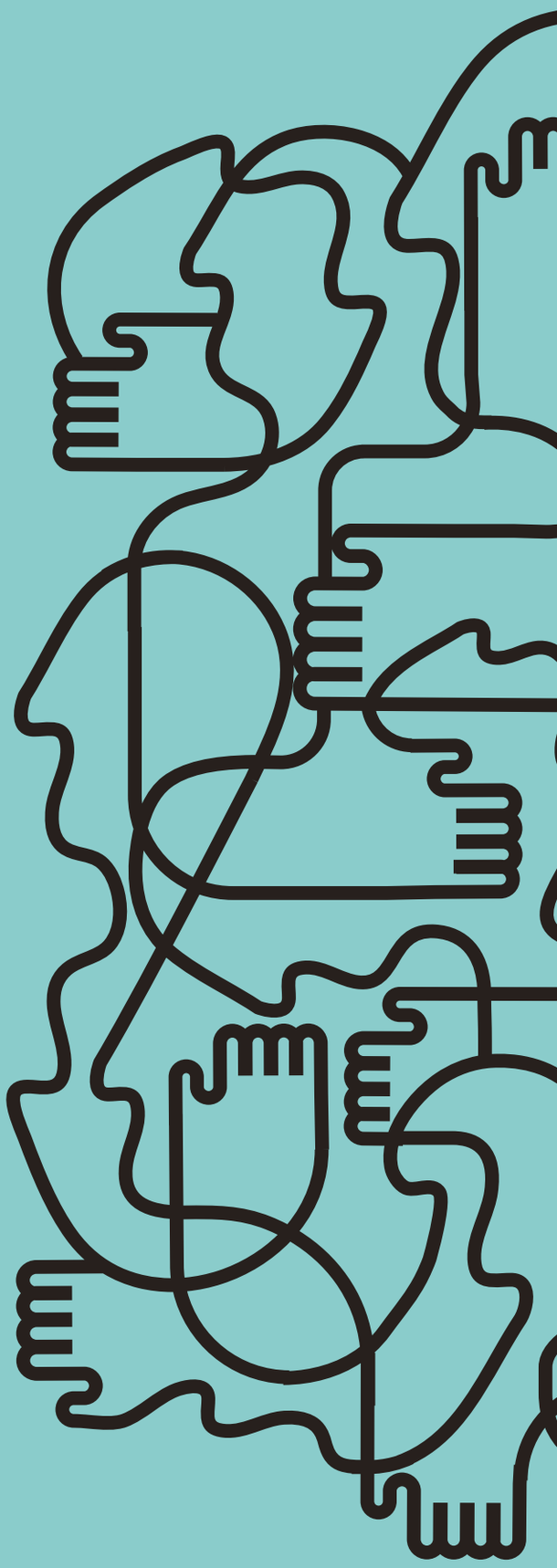

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