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Financial Planning

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True believer

Randall Stout CFP® takes out the national CERTIFIED FINANCIAL PLANNER® Professional of the Year Award

THIS ISSUE: Outlook 2015 / Ownership of assets and estate planning / Innovation with income protection / Professionals Congress wrap-up

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FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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www.fpa.asn.au • fpa@fpa.asn.au • Level 4, 75 Castlereagh Street, Sydney NSW 2000
Phone 02 9220 4500 • Fax 02 9220 4580

Editor: Jayson Forrest
Locked Bag 2999, Chatswood NSW 2067
T: 02 8484 0906
E: jayson.forrest@cirrusmedia.com.au

Advertising: Jimmy Gupta
T: 02 8484 0839
M: 0421 422 722
E: jimmy.gupta@cirrusmedia.com.au

Advertising: Joseph Sing
T: 02 8484 0876
M: 0415 881 548
E: joseph.sing@cirrusmedia.com.au

Advertising: Suma Donnelly
T: 02 8484 0796
M: 0416 815 429
E: suma.donnelly@cirrusmedia.com.au

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Here's to a bright future for all

2015 is set to be another big year for the financial planning profession. Having rested and re-charged, team FPA is raring to support you in the challenges and opportunities that lie ahead.

There's no doubt that 2014 was a significant year for financial planners. Whilst volatility and uncertainty continue to present our profession with challenges, we all have a job to do.

For our members, that job is to continue to provide good advice that changes the lives of clients for the better. The FPA has a role to play in that too. Our role is to guide and support you in providing that advice, whatever the landscape looks like. Here are some of the ways we will be supporting you in 2015:

Education

In December last year, we were glad to see the PJC Inquiry release its report on professional, ethical and education standards of the financial planning profession. Many of the recommendations are aligned with the FPA 10 Point Plan we released in May last year. Over the years, the FPA has championed education as a key ingredient to improving industry-wide advice standards and we will continue to work with Government to ensure these important measures are implemented.

I am certain that CFP® Certification will become the standard of the future. Through the CFP advertising levy, the FPA will invest heavily in consumer advertising over the coming months, to promote the value of advice from a CFP professional. Over time, more and more consumers will look for these three letters as reassurance and confidence in the financial advice they receive.

For those considering CFP Certification, we are committed to working with you on a one-to-one basis to find a tailored solution and the best pathway into the program for you. Enrolments for the current semester are open. To find out more, visit www.fpa.asn.au/cfp.

Policy

Last year we saw some unrest in parliament, leaving many of you with uncertainty about what you need to do to comply with FoFA. The high number of members who subscribed to the FPA's FoFA webinar in December tells us that we need to keep supporting you with resources around policy developments, as they unfold. We will also support you with toolkits and easy-to-understand interpretations of often complex legislation.

FPA Roadshow

We will soon be releasing details of this year's national member roadshow, scheduled to take place during the months of April, May and June. The content is designed to support you with the knowledge and tools you need to deliver the best possible financial advice. Keep watching for more details.

Referral Programs

Last year we launched a landmark national referral program for FPA Professional Practices. In two separate collaborations with industry super fund Cbus and public offer fund Sunsuper, the program generated 537 client referrals in 2014, since the September launch date.

The referral program is designed to connect more consumers with CFP professionals within FPA Professional Practices and the success of the program to date is just the tip of the iceberg. We are set to announce a third referral collaboration soon. You can find out more about becoming an FPA Professional Practice on our website.

As February gets underway, the time for reflection and recalibration is behind us. The time for positive, consistent action is upon us. There are many more ways we'll be supporting you over the coming months and we very much look forward to working with you.

Here's to a bright future for all.

Mark Rantall CFP®
Chief Executive Officer

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FPA welcomes FSI Report

The FPA has welcomed the release of the Financial Systems Inquiry (FSI) Report, with many of the report's key recommendations aligning with the FPA's 10 Point Plan. These recommendations include:

Better product regulation

- The need for ASIC to have the tools to better prevent bad products entering the market, as well as introducing new accountability obligations on product manufacturers. This includes the recommendation to strengthen product issuer and distributor accountability and the introduction of product intervention powers.
- The removal of regulatory impediments, such as tax settings for income streams, in order to provide the financial services industry with greater scope for product innovation.

General advice

- The term 'general advice' should be renamed to remove confusion and uncertainty with this term.

Financial planning standards

- Financial planner education standards should be raised to a relevant tertiary degree requirement.
- ASIC to be provided with enhanced powers to ban individuals, including those involved in managing financial services firms.
- An enhanced 'Adviser Register', which the Government is already committed to implementing.

Tighter controls on remuneration

- The Government to consider removing the stockholder exemption from the ban on conflicted remuneration implemented by the FoFA reforms.

Regulator performance

- The introduction of more effective accountability measures for regulators to better ensure they meet performance indicators and implement their mandates.
- A recommendation to the improvement of ASIC's funding model by requiring a cost-recovery model from the industry, and to increase ASIC's powers against AFSL and ACL holders.

Superannuation

- Changes to the default super market, including an improved competitive process and implementation of a quality filter for MySuper products if the Stronger Super and MySuper reforms fail to produce significant reductions in fees.

In addressing the findings of the FSI report, FPA General Manager Policy and Conduct, Dante De Gori, said the FPA was pleased to see that a number of the recommendations in the report supported the financial planning profession.

However, the FPA's De Gori expressed concern with four recommendations. These included:

1. The recommendation that ASIC's funding be paid for by the industry. "Though the FPA understands this recommendation, the FPA remains concerned about costs being passed onto consumers, creating further barriers to the affordability and accessibility of financial advice," De Gori said.

2. Upfront commissions on life insurance products cannot be greater than ongoing commissions. The FPA considers this is a product recommendation to address concerns from the recent ASIC report into life insurance advice.

3. Removal of the limited recourse borrowing arrangements that are used by SMSFs to purchase property. This would be a prospective prohibition, allowing existing arrangements to remain in place. The FPA has previously recommended that a review of this measure should take place before any decision is made.

4. The report recommends that retirement income stream products include longevity insurance by default. The FPA has recommended that the need for longevity insurance depends on the client and their circumstances and should not be incorporated by default.

However, De Gori was pleased to see that many of the FSI's recommendations mirrored the FPA 10 Point Plan, including approved degree requirements for planners. He also welcomed the FSI's decision not to support a National Competency Exam.

The Government will now consult with stakeholders before making any decisions on which recommendations to implement. This consultation process will take place until 31 March 2015.

Early wins Gwen Fletcher Memorial Award

Crowe Horwath associate financial adviser, Amy Early CFP® has been named the Gwen Fletcher Memorial Award winner for being the highest achieving student in Semester 2 of the CFP Certification unit. The award is presented each semester.

Amy receives her award for achieving the highest mark in all three required assessments in the CFP Certification program. As part of her award, Amy receives a certificate of recognition and $1,000, which is funded by the FPA.

Amy said winning the Gwen Fletcher Memorial Award was a "great honour" and she applauded the FPA for keeping alive the memory of Gwen Fletcher and her drive to make financial planning a recognised profession.

Amy has been planning for two years, prior to which she was a client services manager and a teacher of English in Germany. She credits her decision to become a planner to her enjoyment of working with people, and views her transition from teaching to planning as a means of continuing to help people.

"I like working with people and I'm interested in planning strategies, so becoming a planner was an easy choice for me," she said.

Amy attributes her success and enjoyment as a CFP practitioner to the tangible difference she can make to the lives of her clients.

"Being a CFP practitioner provides me with the technical skills to provide the best opportunities for my clients," she said. "It has also helped round me out as a planner. And the CFP mark shows my clients that I'm not only committed to professional excellence but to ongoing learning. It's the standard that all planners should aim for."

Amy Early

Amy has a Bachelor of Arts and a Bachelor of Commerce from the University of Wollongong, and a Graduate Diploma of Applied Finance (Financial Planning) from Kaplan Professional.

Sunsuper partnership

Superannuation provider Sunsuper has entered into a partnership with the FPA, whereby CFP® practitioners working in an FPA Professional Practice can accept referrals from Sunsuper members seeking financial planning services and advice.

As part of the agreement, Sunsuper's existing in-house team of planners will work with CFP practitioners over a much wider geographical base of clients.

The Sunsuper agreement is similar to an existing arrangement between Cbus and the FPA.

FPA chief executive officer, Mark Rantall said the FPA will undertake an 'expression of interest' process with all FPA Professional Practices. The first referrals are expected to start from January 2015.

Future2 grants $70K to young Aussies

The 2014 Future2 Wheel Classic, a pre-Congress golf day and the charity dinner at the FPA Professionals Congress last November combined to raise over $230,000 for Future2 – the charitable foundation of the FPA.

Seven community not-for-profit organisations were selected for the 2014 Future2 Make the Difference! Grants, with $70,000 awarded to programs that will support young Australians who are socially and financially disadvantaged.

Make the Difference! Grants have been awarded for eight years and in 2014, a total of 90 grant applications were received nationwide. For the first time, Future2 has awarded four multi-year grants of up to $30,000 over three years. These grants were awarded to:

- Women's Health and Family Services, Northbridge WA, for an education and empowerment program for 12-15 year olds;
- Palngun Wurnangat Association, Wadeye NT, for the Widening Horizons through work experience program for 18-25 year olds;
- BackTrack Youth Works, Armidale NSW, for work experience and job readiness training in agriculture, for women aged 18 to 25 years; and
- Bridge Builders, Lilydale VIC, for a leadership program, including education and skills training for 12-25 year olds.

In addition, three short-term grants of up to $10,000 were awarded to:

- Edmund Rice Camps, Metro Melbourne VIC, for a summer camp to mentor young girls aged 12-18 years;
- Wirrpanda Foundation, Perth WA, for Deadly Brotha Boyz, for a fitness and mentoring program aimed at young male Aboriginal offenders, 12-18 years; and
- Windeward Bound Trust, Hobart TAS, for a youth leadership challenge on board the Windeward Bound, linking young Tasmanians with newly settled refugees.

First time rider: Dante De Gori

Since Future2 was established in 2007, the foundation has granted $390,000 to 31 organisations.

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FPA Awards 2014

The national and state winners of the 2014 FPA Awards were announced at the recent FPA Proffessionals Congress in Adelaide. The winners are:

FPA CERTIFIED FINANCIAL PLANNER® PROFESSIONAL OF THE YEAR AWARD

National Winner
Randall Stout CFP®, HPH Solutions

State Winners
NSW: Jim Fenwicke CFP®, Lumix Wealth
VIC: Catherine Robson CFP®, Affinity Private
TAS: Nicolas d'Emden CFP®, Shadforth Financial Group
SA: Martin Hunter CFP®, Hunter Financial Services
QLD: Christopher Smith CFP®, Visis Private Wealth
ACT: Jeremy Gillman-Wells CFP®, Bravien Financial
WA: Randall Stout CFP®, HPH Solutions

FPA FINANCIAL PLANNER AFP® OF THE YEAR AWARD

National Winner
Stephen Godfrey AFP®, Visis Private Wealth

State Winners
WA: Simon Podesta AFP®, Infinity Wealth Solutions
VIC: Simon McGuirk AFP®, McPhail HLG Financial Planning
TAS: Cameron Pereira AFP®, Genesys Wealth Advisers
QLD: Stephen Godfrey AFP®, Visis Private Wealth

FUTURE2 COMMUNITY SERVICE AWARD

National Winner
Kathy Havers CFP®, Catalyst Financial Group

State Winners
WA: Joseph Hoe CFP®, Wealthwise
NSW: William Johns CFP®, Health and Finance Integrated
VIC: Kathy Havers CFP®, Catalyst Financial Group

To read more about the FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award national winner, Randall Stout CFP® and his client case study, go to p18.

External dispute resolution for financial services

From 1 July 2016, accountants who provide advice regarding SMSFs will be required to hold a limited Australian Financial Services Licence (AFSL). All AFSL holders are required to join an external dispute resolution (EDR) scheme.

The Credit and Investments Ombudsman is an ASIC-approved EDR scheme which will satisfy EDR membership obligations for limited AFSLs.

We already accept membership applications from limited AFSLs. Contact us for information about AFSL and limited AFSL memberships.

Credit & Investments Ombudsman
02 9273 8455
www.cio.org.au

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

ACT
David Rule CFP®
Maylok Services

NSW
Angela Richards CFP®
OnePlan Financial Planning

Mario Bardella CFP®
ipac Securities

Francisco Da Luz CFP®
Enrinzen Financial Group

John Mihail CFP®
Count Financial

Karen Faehndrich CFP®
Crosbie Wealth Management

John Nelligan CFP®
APT Wealth Partners

Elise Aricheta CFP®
Altus Financial

Pang Woo CFP®
Mortgage Choice Financial Planning

Louise Wiseman CFP®
Wiseman Financial Services

Alex O'Brien CFP®
Dixon Advisory

Brett Kretchmer CFP®
Clarity Wealth

Matthew Vickers CFP®
Sherlock Wealth

Brett Ulrick CFP®
Elston Partners

QLD
Kevin Giles CFP®
National Australia Bank

Robert Egstorf CFP®
Commonwealth Financial Planning

Michael Evans CFP®
AMP Financial Planning

Karen Caldwell CFP®
CQ Advice

Jason Brooks CFP®
Guardian Investments

SA
Nathan Baker CFP®
BAM Financial Planning

Jessica Looi CFP®
Westpac Banking Corporation

TAS
David Woolford CFP®
Collins SBA

VIC
Daryl Dyer CFP®
Southbank Financial Service

Romano De Nadai CFP®
Crowe Horwath

Deepti Virmani CFP*
Unison Financial Group

Andrew Dunbar CFP®
Apt Wealth Partners

Anand Mehta CFP®
ANZ

Stephanie Patrick CFP®
Shadforth Financial Group

Dimitri Koklas CFP®
Crowe Horwath

Timothy Dawe CFP®
Innate Wealth

Susan Cooper CFP®
Epona Financial Guidance

Jeremy Morrison CFP®
Warrringal Financial Services

Josh Gupta CFP®
ANZ Financial Planning

Andrew Surman CFP®
Hayes Girling Financial

WA
David Powell CFP®
Intaxes

Anthony Shear CFP®
Odyssey Financial Services

Mathew Stinton CFP®
Stinton Partners

Ross Brown CFP®
Emerge Financial Services

Stevie-Jade Turner CFP®
Westpac Banking Corporation

Amanda Jarosz CFP®
Momentum Planning

David Counsel CFP®
Stewart Symonds & Partners

Casey Shaw CFP®
Blueprint Wealth

Hard work worthwhile

Amy Early has been awarded the Gwen Fletcher Memorial Award for being the highest achieving student in the CFP® certification unit for semester two. She views the award as her motivation to constantly aim for high professional standards, while making a meaningful contribution to financial planning.

Amy Early CFP®

Age: 30

Educational Qualifications: Bachelor of Commerce (Economics), Bachelor of Arts (Politics), Graduate Diploma of Applied Finance (Financial Planning)

Position: Associate Financial Adviser

Practice: Crowe Horwath

Licensee: Crowe Horwath

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

I was attracted to the CFP Certification Program as I knew it would build my technical skill set and leave me well placed to provide high quality advice to clients. Both personally and professionally, I felt it was important that I strived for the highest possible standard of education and experience. The CFP Certification Program provides this opportunity and the designation demonstrates an ongoing commitment to these high standards.

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

Many of my colleagues have completed the CFP Certification Program, so I was aware of the dedication and hard work required. I followed their advice about taking a structured approach to both the assignment and exam preparation, and being methodical with my research.

From the outset, I dedicated as much time and effort that I could to ensure I committed my best efforts to the assessments. I think starting the assignment as early as possible and allowing plenty of time for review and re-work, is a key ingredient to successful completion of the CFP Certification Program.

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

I'm obviously very pleased to have finished my studies and it's a real honour to receive recognition from the FPA. Gwen Fletcher was an outstanding role model and her commitment to assisting financial planners in helping their clients is very inspiring. Receiving this award is a great motivation to constantly aim for the high standards that Gwen set and for me to make a meaningful contribution to our profession.

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

I don't think there is any one great challenge of being a financial planner. We work with individual clients in an ever-evolving profession and this, by its nature, presents challenges every day. I think these challenges are what makes the profession so interesting and rewarding.

Every client will have a unique set of circumstances and goals, and there is no 'one-size-fits-all' solution. It's about bringing together the right strategies and balancing the client's needs and priorities so they can achieve the best possible outcomes.

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

I would encourage planners to undertake the CFP Certification Program, as it certainly provides the technical and professional skills required to build a rewarding and successful career. I think it is important that as financial planners, we commit ourselves to the highest possible ethical and practice standards and this is a key focus of the CFP Certification Program.

I would also stress that the CFP Certification Program is no walk in the park! It requires time and effort and you should be prepared to work hard. Having said that, the hard work is also what makes it so worthwhile.

The year ahead

Q: Looking at the year ahead, what do you think will be the big issues affecting you (as a financial planner) and your clients in 2015?

Tony Gilham CFP®

Founding Partner,
GFM Wealth Advisory

Licensee: GFM Wealth Advisory

There is no doubt that the constant public bickering over the FoFA legislation over the last three or four years and, in particular, the recent financial planning scandals engulfing Commonwealth Bank and Macquarie Private Wealth, have impacted consumer confidence when it comes to seeking financial planning and investment advice.

To the extent that already a large number of Australians are classified as 'disengaged' when it comes to their superannuation and investment arrangements, we can only assume that more Australians will now become more disengaged, and unlikely to seek appropriate financial planning advice because of the increased lack of trust in the sector.

And the term 'conflicted remuneration' is now reasonably well understood amongst the investing population, so most investors are now concerned about 'hidden' fees and charges, brokerage, commission and so forth, even though in the vast majority of cases, it no longer exists.

And it's astonishing to think that more than 50 per cent of SMSF trustees in Australia don't seek any financial planning or investment advice, willing to 'go it alone', basically due to a lack of trust (or a lack of visibility) as a result of this bad vibe across the financial planning sector.

However, it's probably no real problem with existing clients who already have varying degrees of trust in their financial planner, but it's probably going to be harder for prospective new clients to gain the required level of trust in a financial planning practitioner, because of the significant publicity surrounding financial planning scandals over the last couple of years.

And most clients are probably sick and tired of the constant changes to rules and regulations, particularly around superannuation, over the last few years. Hopefully we're getting to the stage where governments will stick to their word and constrain the number of minor 'window dressing' changes. Yes, there's still a need to protect the integrity of the superannuation system to make sure that it isn't rorted, but so many changes just keep making it more complicated for the average Australian to keep up with the vast number of minor and major changes occurring to the system.

The FoFA legislation is absolutely a step in the right direction, and will no doubt increase confidence in the superannuation and investment sector over the next few years, but it will take some time for things to settle down.

Brian May CFP®

Managing Director,
Horizon Wealth Management

Licensee: Horizon Wealth Management

I think the big issues affecting planners in 2015 will be centred on having a strong value proposition that resonates with clients. Those advisers who are unable to articulate this and the value they add to their clients, will find themselves both under enormous margin pressure, as well as struggling to retain their quality clients.

We have to keep reminding ourselves that serving our clients is our primary purpose and we need to continually demonstrate that.

We will be focusing both our efforts and resources on marketing during 2015, as this forms the foundation of our growth strategy.

We are confident that our existing clients are appreciative of the value of our advice.

We do think that fees will continue to come under pressure all through the value chain as more entrants move into the supply chain with disruptive propositions.

In time, we will see the emergence of advice being sold in more of a light touch capacity, as consumers seek out different ways to engage with financial advisers.

To be successful in 2015 and beyond, businesses should:

- have a functional and robust business plan;
- have built a business with the client at the core;
- have a value proposition which connects with clients;
- have built excellent practice management and reporting systems;
- have well documented processes and methodologies;
- have a good understanding of all the technologies required to run an efficient business;
- have well trained, engaged and motivated staff; and
- can respond and adapt to their clients' needs.

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

Charles Badenach CFP®

Principal and Private Client Adviser,
Main Street Financial Solutions

Licensee: Lonsdale Financial Group

2015 promises to be another exciting year filled with change and challenge. With the world moving so rapidly, as an adviser we need to be aware of the changes and react where appropriate to ensure that we remain the key adviser for our clients.

The big issues affecting the financial services industry and our clients are likely to be:

1. **Global Issues:** What happens on one side of the world now has an impact on the other side of the world, and with issues such as Ebola, ISIS and global debt still on the radar, volatility in markets is likely to continue. We have seen the impact of these events in isolated instances, such as the MH17 disaster, and managing clients' concerns during these unsettling periods is likely to continue.
2. **FoFA:** Although many in the finance industry are tired of the FoFA debate, there are a number of new changes to the Statement of Advice requirements that will commence in 2015, which may impact the adviser-client relationship.
3. **Declining Yield:** With the RBA cash rate remaining at 2.50 per cent (Nov 2014), the desire for investors to receive a capital protected yield net of inflation and costs (particularly within the superannuation environment) will be challenging. It is also worth noting that in the event that interest rates rise, bond fund investors will find conditions difficult.
4. **Increasing use of technology in providing advice:** Clients are becoming more technologically literate and as advisers, we need to adjust to this change by adapting our service offerings to align with these changes and their expectations. It is likely that social media will continue to play an ever increasing role in the interaction with our clients and centres of influence, therefore, we need to be active in this space.

Having said the above, a new year represents new opportunities, new challenges and it is an exciting time to be a part of the profession.

Daryl La'Brooy CFP®

Financial Adviser,
Hillross Financial Services

Licensee: Hillross Financial Services

After having worked nearly 17 years as a financial planner, there is a level of certainty to my vocation. My primary task is to help clients achieve their personal goals. Their money is the enabler which allows them to live the life they choose.

My task is to ensure they achieve what they set out to do and if they can't, for me to then come up with alternatives and options that the clients can attain. Therefore, in one sense, 2015 will be much the same for most of my clients as 2014 has been.

My clients' financial plans will largely remain on track. The last time there was significant disruption was during the GFC but because my clients had good quality investments and a safety net, we got through that rough patch.

Most of my clients' financial plans have been prepared with financial uncertainty in mind, so the recommendations are conservative and cater for inevitable disappointment that financial market returns throw up from time to time. The big event that may occur sometime in 2015 or beyond is a reversal in bond market returns, as long-term interest rates start to rise.

In the world of financial planning, the big changes from a regulatory viewpoint are almost behind us, albeit negative media at the time of writing continues. Let's hope we'll get regulatory certainty until the next Federal election scheduled for 2016.

Personally, my biggest challenge this year and beyond is growing my revenue. However, activity undertaken last year and plans for this year should see growth occur.

In 2014, I launched a book and a new marketing brand with it, so my time and money will be spent working with ideal clients in the 'first generation successful small business owner' arena.

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.

Greatness is an overused adjective. The great ones are those who make a real difference to the lives of others.

Congress images courtesy of The Social Adviser and Financial Planning magazine.

Inspiring Greatness

Over 900 delegates attended the 2014 FPA Professionals Congress in Adelaide, and what better way to officially begin and set the theme for the Congress, than a discussion by four prominent Australians on what 'Inspiring Greatness' means to them.

Throughout his illustrious career as one of Australia's finest journalists and media presenters, Ray Martin has interviewed many worthy individuals. Yet, when tasked with exploring the issue of what inspiring greatness meant to him personally, it came down to "self-belief".

"Greatness is an overused adjective," Martin said. "The great ones are those who make a real difference to the lives of others. They are the teachers, the nurses, the social workers, the carers. Greatness is complex. It doesn't mean you have the most money or even having charisma. Greatness starts with self-belief and making a difference."

Martin singled out individuals like Andrew 'Twiggy' Forrest, for his charity work with indigenous Australians; Dick Smith, for his charitable and philanthropic work; Dr Fred Hollows, and the remarkable work he did through the Fred Hollows Foundation to eradicate cataract blindness; and Geraldine Cox through her work with orphaned children in Cambodia through the Sunrise Children's Villages.

"These are extraordinary Australians with vision and purpose," Martin said.

In a thoroughly engaging and lively panel discussion with Jihad Dib (Punchbowl Boys' High School principal), Tara Moss (author) and Ita Buttrose (editor, author and advocate), Martin explored the notion of greatness with each panellist, who in themselves are regarded as great and inspirational Australians.

Dib recalled his own experience as the principal of Punchbowl Boys' High School and redefining the culture of the school. He said fundamental to this was giving the students a sense of purpose and self-belief.

"You've got to communicate your purpose and vision," Dib said. "If people trust you, they'll come on the journey with you."

Through determination and self-belief, Dib has transferred a school with a 'no-go' reputation to one that has become the envy of the NSW Education Department. But doing so meant re-engaging with the local community, parents and the students themselves. Dib encouraged former students, who had become successful in their respective careers, to share their stories of inspiration with the students, as well as inviting notable Australians, like Ita Buttrose, to address the students.

"We were the school that people had given up on. But we have built a family. We have become a great school. We do things together, like paint the class rooms," Dib said. "The school has become part of the community. Indeed, we may be a poor community but we're rich in spirit."

Tara Moss also spoke about self-belief in her journey from being a model to an award-winning novelist.

"Greatness is something that needs to be defined," Moss told delegates. "It's the impact you have on other people."

Moss spoke about growing up on Vancouver Island (Canada) and the positive effect one teacher had on her life. The help and support this teacher gave Moss when her mother was ill, helped define the person she has become today. For Moss, this is greatness.

And for the 2013 Australian of the Year, Ita Buttrose, greatness is about genuinely making a difference. "Greatness is about making a difference, and everybody can make a difference," she said. "Outstanding people do what they do not for public recognition, but because it's the right thing to do."

Buttrose drew on a lifetime of rich memories to remind the audience of the importance to believe in yourself. "It's all about self-belief. If you don't believe in yourself, then nobody else will."

Buttrose reminded delegates to stay true to their values and principles. " If you do, people will trust you."

More Congress coverage on p14-17.

How to change the world

In a packed masterclass at the FPA Professionals Congress, dynamic speaker, financial planner and author, Carl Richards CFP® showed delegates how they could grow their business in the simplest of ways.

Carl's three tips to communicating more effectively with clients and thereby building a planner's business, were:

1. Seek permission
2. Create content
3. Be genuine.

Permission

Carl advised planners to sign up to online services, like MailChimp, which is an online email marketing service to manage contacts, send emails and track results.

"When you collect business cards, add all these email addresses to MailChimp, and send out an email to all your contacts saying they had given their permission to you to contact them," Carl said.

You should build on this communication by each week sending your growing list of contacts an email about what's happening in the financial market and where opportunities or risks are appearing, or something of a similar nature.

"You need to keep this communication simple and conversational, like you're talking to a friend," Carl said. "And you need to be consistent with your weekly email. If you're going to send it Friday morning, then make sure it goes out each Friday morning."

Carl reminded delegates that because people have provided you with their contact details, they have given you permission to contact them. He said this was a great opportunity to help build a business.

"Allow people to receive your e-newsletter and 'watch from the outside', until they feel comfortable about contacting you. And don't forget to add the content from your e-newsletter to your website or blog. Even use Twitter to tempt people to read your website content by using a catchy tweet like, 'Have you ever wondered how much your neighbour earns?'. Naturally, you need to make the tweet relevant to the content you have uploaded."

Create content

According to Carl, creating content for your e-newsletter is not difficult.

He advised delegates that if it's too difficult to write original copy each week, then put aside any interesting articles they read each week. At the end of the week, review those articles, and use the best of those articles for your e-newsletter, remembering to properly attribute them.

He advised that you need to explain in your e-newsletter why you found the article interesting, and why it would be of interest to your readers.

"If you can provide content that people find interesting, then that becomes powerful for your readers," Carl said.

Carl also advised that when talking to clients or people of interest, start recording the conversations. This allows planners to concentrate on the conversation at hand, and not worry about note-taking.

"When you listen back to a conversation, you invariably pick up on things you missed the first time. You can also use these recorded conversations as content for your e-newsletter. You can write this up in a way that protects the identity of an individual.

"So, remember. If you are unable to write original content all the time, there are so many other areas where you can draw upon content for your client emails."

Be genuine

And once a planner attracts a prospective new client, Carl said it's important to convert them by being genuine with them. He said this included overcoming feelings of self-doubt, and being proud of your educational, technical and professional expertise.

"As a profession, we do suffer self-doubt. But you don't need to establish your credibility with clients," Carl said. "Accept and embrace the idea that you are a professional. Doctors don't spend the first 10 minutes establishing their credibility and qualifications with new clients, so why should you?"

Carl said clients will judge planners by the quality of the questions they ask, so he advised that planners ensure their questions are succinct and to the point.

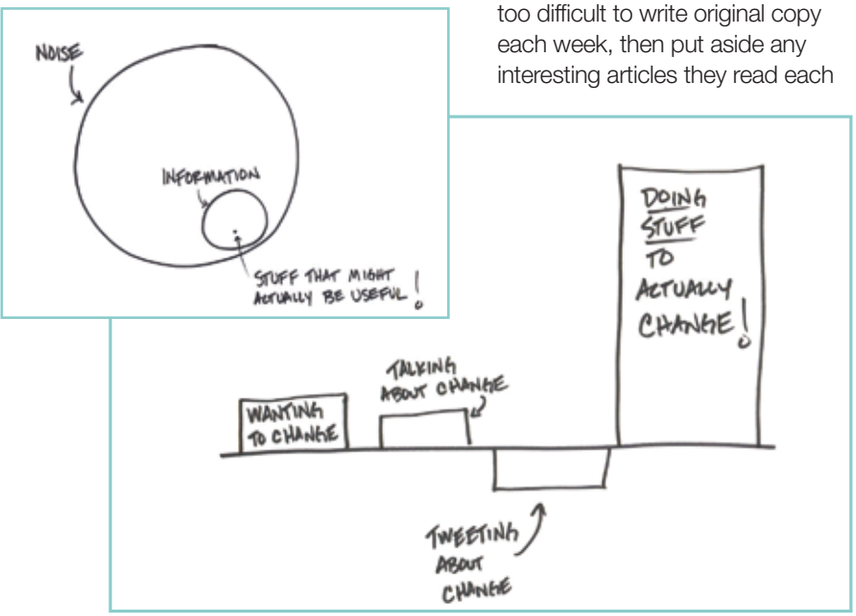
"The diagnosis process of the client is important and needs to be thorough. By doing so, it will ensure that the second meeting is simplified and much more specific to the client's needs and objectives."

Carl reminded delegates that Australian consumers needed their help and expertise. He told them to tell their story about how they do make a difference to the lives of their clients.

"Planners do make a difference but people don't appreciate this," Carl said. "Everywhere I go, people tell me they have anxiety issues with their finances. So, as a profession, that's where we can help them.

"We need to break down this barrier of secrecy about what it is we do. We need to take responsibility ourselves to spread the message of financial planning and the benefits of good advice.

"If we don't take responsibility for spreading the message, who else will?"




Cyclists in the 2014 Future2 Wheel

The Expo Hall was popular.

Sheila Cabacungan, George Flack and Stevie-Jade Turner.

Jenine Hayman, Allison Macfarlane and Julie Berry.

Carl Richards handing out signed prints of his sketches.

Delma Newton and Dacian Moses.

Courage under fire

In a sensitive session at the Professionals Congress, Commonwealth Financial Planning whistleblower, Jeff Morris, joined with Rockwell Olivier's Peter Bobbin, in a discussion about the role and protections of the whistleblower in corporate Australia.

Morris was scathing of ASIC in its role during the Commonwealth Financial Planning investigation and the isolation he felt as a whistleblower.

"During this whole process of bringing to public attention the conduct of Commonwealth Financial Planning with some of its clients, I received no protection from ASIC. Currently, there are no basic protections for whistleblowers or compensation to help with the financial and emotional rollercoaster of being a whistleblower, which does change your life."

Bobbin said a whisteblower policy was right for consumers, businesses and the profession. "Whistleblowing isn't whinging. It takes courage to raise concerns in good faith."

Bobbin added that developing a whistleblowing policy for small practices (eight people and below) needn't be costly or time-consuming. He suggested using the FPA's complaints program – FPA Confidential – as a smart and easy way to rollout a practical whistleblowing policy for most practices.

"Embracing ethical conduct and culture is a very important thing for businesses and the profession," Bobbin said. "Work-related mental health is part of the *Occupational Health and Safety Act*. And stress from whistleblowing, as well as workplace bullying, comes under the umbrella of this Act. And don't forget, fraud is an indictable offence."

Morris said the whistleblowing experience was deeply personal and life altering for him and his family.

"The whole experience was a lot harder than I ever thought it would be," he said. "You can't blow the whistle and just walk away. You need to see it through. If you really care about righting a wrong, you need to follow through to the end."

He added that having been through the whistleblowing process, he would do it all again if confronted with a similar situation.

Classic helped raise $126,500.

Practice makes perfect

'What does leadership mean to you?'

This was the question asked of Matthew Rowe CFP® (Hood Sweeney), Greg Cook CFP® (Eureka Whittaker Macnaught) and David Richardson CFP® (SWA Financial Planning) at a leadership workshop. In a lively discussion, Richardson said leadership was about "having a vision, being fearless and passionate". He used FPA chairman Neil Kendall CFP® as a good example of somebody embodying the right characteristics of leadership.

"Not only is Neil an accomplished and awarded planner at Tupicoffs, he is the managing director of Financial Rescue, a firm that assists consumers in financial services disputes," Richardson said. "This initiative not only aids people in need as a result of receiving bad advice, but he is challenging bad advisers to leave the profession. That's leadership!"

Rowe added that leadership was about setting the 'tone' and 'culture' of a business. "If you want to be a leader, there will be times when you need to call people on their behaviour," he said.

When asked about the qualities of being an effective leader, Cook said it was about being a good delegator, about leading by example and having a strong work ethic. Rowe added that good leaders have clarity of purpose, and a focus on the team and the end objective. "Leadership is not just about leading the people in your business, but it's also about leading your clients."

Continued on p16

Relevant not redundant: Winning the battle for relevance

Why is it that some seemingly iconic brands go quickly from 'hot' to 'not'? And what if planners were becoming obsolete but didn't even know it? Are there lessons to be learnt from the collapse of household brands like Kodak, SAAB and Atari?

These were some of the questions Australian-born social researcher and author, Michael McQueen, asked delegates in a fast-paced and compelling presentation.

McQueen spoke at length about the 'relevance curve' – a bell curve that businesses can map their ascent and descent to.

Typically, there are four points in the relevance curve; on the ascent there is the 'tipping point' on the way up to the 'turning point'. Between these two points is the 'sweet spot' for most companies, when business is booming and the feeling of success can become intoxicating. However, McQueen warned this was the period companies can become complacent and quickly slide into the descent.

Staying relevant: Michael McQueen

From the apex of the 'relevance curve', companies descend from the 'turning point' to 'crises'. This is the point where businesses realise they are in trouble and need to act. From 'crises', we go to 'tanking point', at which time it's usually too late to turn around a company's fortunes.

McQueen said a number of companies have been successful in continually reinventing themselves. They include Coca Cola, Disney, Lego, Kellogg's, Cadbury and Faber-Castell.

McQueen cautioned delegates to remain relevant and competitive as financial planners, in a business and social environment that was rapidly changing. He provided four tips to remaining relevant in the years to come. These include:

1. Re-calibrate

"You need to take the time to re-calibrate and realign your business," McQueen said.

"Ask yourself, what business are you really in. If it's the 'choice and dignity' business or the 'peace-of-mind' business, work that out and re-calibrate. And then stay on the right track."

He said it was important that businesses periodically step back and look at their business, and stay focused on what their core objectives are.

"Kodak ultimately went bust because it aligned itself to the wrong direction," McQueen said. "Kodak was in the memory preservation business but aligned its direction to film because it had always been profitable for the business. It had the opportunity to pioneer digital but feared cannibalising its core business. It needed to re-calibrate its business but didn't."

2. Re-engineer

McQueen warned that it's too easy to go into auto-drive when in business, thinking you might be in the groove when actually, you're in a rut.

He suggested that business owners needed to regularly:

- De-construct what it is the business does step-by-step. By making the process more explicit, we can identify inefficiencies and rectify them.
- Evaluate what's missing in the business and fill in these gaps.
- Innovate and work out how to do old things better.
- Re-assemble these key elements and implement any changes across the business.

3. Re-frame

"Never underestimate the newest person in the business," McQueen advised.

"New staff have joined the business with fresh eyes and no pre-conceived ideas of how things have been done in the past. These people can bring a fresh perspective to how you do business."

McQueen used Delta Airlines as an example. He said a flight attendant noticed that a lettuce leaf was served as garnish with each meal served on the airline, yet few people ate this lettuce leaf. By questioning Delta Airlines' reasoning for doing this, the airline removed the lettuce leaf from each meal, thereby saving the business $1.4 million in the first year of implementing this change. A good and sensible business decision.

Randall Stout CFP® with his FPA CERTIFIED FINANCIAL PLANNER® of the Year Award.

4. Re-position

In order to stay relevant in the market, a business needs to be positioned correctly. McQueen advised to work out who your clients are and position your offering to them.

"If you want to market to Gen Y, then you need to market through them, not at them," McQueen said.

"It's about better understanding your target market and how to approach them."

He used an example of the car manufacturer Volvo, which repositioned its traditional boxy car, to a new sleek design that Gen Y found more appealing to their taste.

McQueen summed up his presentation with advice for all financial planners: "If you're going to remain relevant, you need to go with the wind. Don't try going against the wind of change, or you'll end up like Kodak – irrelevant and redundant."

Stephen Godfrey AFP® accepts his FPA Financial Planner AFP® of the Year Award.

Life is the career

How you treat people has real life consequences. This was one of the key messages that celebrated media personality, Andrew Denton, delivered in his closing plenary presentation at the FPA Professionals Congress.

In a highly engaging and often humorous presentation, Denton shared his philosophy that "life is the career, not the other way around", and the people he draws inspiration from are those who help enrich his life, not just his work. "I know if I get that right then I am guaranteed job satisfaction, no matter what might be happening in the wider world."

Denton spoke about success and inspiration. "What makes a successful person, is a successful life," he said. "The successful pay attention to detail. They work harder than the next guy."

He drew upon his many interviews with some of the world's great personalities, including the likes of U2 front man and philanthropist Bono, Hollywood director Steven Spielberg, former US President Bill Clinton, and primatologist Jane Goodall, to demonstrate the difference these individuals have made in changing perceptions and championing causes globally.

"Successful people make something happen when nothing is happening," Denton said.

He challenged delegates to back themselves, as many successful people have done, because "nobody else will".

"Fear keeps you sharp and complacency makes you flabby. Failure is painful but taking a leap of faith can be joyful," he said. "You need to take the front step and keep on going."

Kathy Havers CFP® receiving her Future2 Community Service Award from FPA chairman Neil Kendall CFP®.

Warwick Edwards (Perpetual), Dominic Alafaci (Collins House) and Bill Antoniou (FPA SA Chapter Committee).

Brekkie with Maggie

Respected gourmet and food personality, Maggie Beer, didn't disappoint as the keynote speaker at the Women in Finance breakfast at the FPA Professionals Congress.

Maggie Beer

Beer shared her story of moving from the Western suburbs of Sydney to the Barossa Valley in South Australia to breed pheasants, and the importance of living by the seasons and being connected to the land.

As an accomplished chef, food author, columnist, restaurateur, food manufacturer and media celebrity – having co-hosted the ABC cooking program *The Cook and The Chef* and as a guest judge and presenter on Channel 10's *MasterChef* – Beer has always remained a grounded individual.

Beer said it wasn't until she was 34 before she realised what it was she wanted to do with her life, which was cooking. And it wasn't until she was 40 that she finally found her confidence.

"I was never taught how to cook, I just knew how to," Beer said. "The most wonderful thing for me was finding my voice and being able to share my knowledge and experience with others. I really love what I do."

Beer said the most valuable lesson she has learnt over the years is to accept criticism. "It's important not to be defensive about it, but to learn from it."

And Beer is showing no signs of slowing down. She revealed to the audience that her next project was to "de-institutionalise" cooking in aged care facilities.

"To me, this is almost more important than my business," she said. "The aged deserve to be fed properly prepared and good quality food. My vision is about changing the way we feed the elderly. It's about simple food made with love."

Without a doubt, the CFP® mark is very important for the profession. It's the only globally recognised mark for our profession.

Name: Randall Stout
Position: Director
Practice: HPH Solutions
Licensee: HPH Financial Planning
Years as a planner: 15
CFP designation: 2002

True believer

As the 2014 national winner of the FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award, Randall Stout CFP® passionately believes in raising awareness of the CFP designation.

Randall Stout didn't have to turn far to receive inspiration to enter this year's FPA Awards. It was a phrase often used by former FPA chairman Matthew Rowe: 'We stand on the shoulders of those who came before us.'

"This phrase really resonated with me," he says. "I looked at the previous award winners and thought, as a planner, what a privilege it would be to be in their company. And so, with 15 years of planning experience, I thought it time I showcased my own expertise."

It's a decision he does not regret.

By entering the 2014 FPA Awards, Randall not only won the national award, but he used his entry as a means of benchmarking his business against the other entrants, as well as using it as an opportunity to be peer reviewed – not just his client case study, but also his ongoing contribution to the profession and the wider community.

"I don't think I won this award solely on my client case study. I think being a former WA Chapter Chair and the current Deputy Chapter Chair, as well as being an enthusiastic participant on the interim Regional Chapter committee, all helped contribute."

Randall is actively engaged with the Western Australia financial planning community, which is an important element of this award. This engagement includes mentoring young professionals and working with sole trading practitioners.

"As a profession, these are the types of steps we have to take to break down barriers. It can be lonely being a sole practitioner and it's hard work if you haven't got a support network around you. So, I'm looking to spend more time helping those sole traders, even if it just means catching up for a drink and chat at the end of the working week."

As one of the judges of this year's award, Lisa Weissel CFP® – a senior financial planner at Evergreen Wealth Professionals – said the high calibre of entrants made the 2014 awards decision a difficult one.

"We were looking for true excellence in financial planning," she said. "For us, that translates as the ability to provide clear, easily understood advice which clients can follow to reach their financial goals. It sounds simple, but requires the combined ability to genuinely engage and communicate with clients, along with the technical skills required to provide the most appropriate advice."

FPA chief executive officer Mark Rantall added: "We look for a planner who demonstrates true professional leadership and excellence, someone who routinely goes above and beyond best practice to achieve the best outcomes for clients.

"That's why I am so pleased to be able to reward someone like

Continued on p20

State winners: 2014 FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award

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

NSW: Jim Fenwicke CFP®, Lumix Wealth

VIC: Catherine Robson CFP®, Affinity Private

TAS: Nicolas d'Emden CFP®, Shadforth Financial Group

SA: Martin Hunter CFP®, Hunter Financial Services

QLD: Christopher Smith CFP®, Visis Private Wealth

ACT: Jeremy Gillman-Wells CFP®, Bravien Financial

WA: Randall Stout CFP®, HPH Solutions

Randall, who has made such an outstanding contribution to our profession."

CFP designation

Randall has had his CFP mark for almost 13 years, but he sees what's involved in becoming certified now – degree qualifications, five units of study and peer assessment – and he believes the CFP mark has truly become the pinnacle of professional excellence.

"I'm also a CPA and I believe the CFP designation and the CPA mark are both travelling on the same path towards higher professionalism, and that's the way it should be," he says.

But he admits consumers and clients still struggle with the concept of the CFP designation, and although awareness is improving, there's still work to be done.

"To be honest, I really don't think consumers understand what the designation means. I certainly explain to them what being a CFP practitioner means and what's required to gain and keep the designation. But it probably means more to my clients that I belong to an FPA Professional Practice, because it means that my whole office is made up of CFP practitioners who are all committed to conducting themselves according to the FPA Code of Conduct."

Randall believes that as a profession, a core fundamental of what planners need to do is to take the time to really listen to clients. And along with technical excellence, empathetic listening is a quality that can really differentiate CFP practitioners in the marketplace.

"I believe that if you listen to your clients really well, and this means recording the meetings and not worrying about note taking, and then listen back to the recordings, you get a much deeper understanding of your clients' needs and objectives. By really listening, it makes it much easier to line-up your advice with what your clients want.

"And when our clients get that, I don't think they really care about all the technical stuff we do. Clients just want to be listened to. If we do that properly and then explain to them what needs to be done, then they will invariably implement our advice recommendations."

When it comes to the CFP designation, Randall is a 'true believer'.

"Without a doubt, the CFP designation is very important for the profession. It's the only globally recognised mark for our profession," he says.

"The CFP mark is building momentum. In the future, I'd like to think that a CPA and a CFP practitioner are held in the same esteem. I know this is going to take time but it will happen. And ultimately, the greatest benefit will be to the consumer, who will come to rely upon a CFP practitioner just as they do with a CPA professional."

Challenges

Delivering consistent outcomes for clients remains one of the biggest challenges for Randall, as he believes it is for all practitioners.

"The thing that I and my colleagues are really working hard on is delivering a consistent outcome for clients. While this is a challenge for us now, it's going to become an awesome opportunity going forward," he says. "By sharing best practice amongst my peers, that's going to result in our practice running better."

This includes HPH Financial Planning making a sizeable

"The CFP designation is something you can hang your hat on but you've got to continue to earn the right to wear it."

investment in its systems, processes, and documentation of its policies and procedures.

And what of the recent defeat of the *Corporations (Streamlining of Future of Financial Advice) Regulations 2014* in the Senate? Surprisingly, the decision didn't faze Randall.

"This announcement didn't really bother me," he says defiantly. "My clients sign up for a 12-month contract, which is renewed every year. I don't get paid anything for doing nothing. So, for me personally, and for people who conduct themselves according to the FPA Code of Conduct, opt-in doesn't matter. My clients are already engaged in the financial planning process and know how hard I work on their behalf."

But he adds that client engagement remains a continuing challenge for the profession.

"The real challenge for any planner is to keep your clients engaged. Personally, I want to get better at doing the review process with clients. The review process needs to be much more than just an opportunity to catch up with clients. It's about checking up on their goals and what's different for them this year from last year.

"I think we can all be guilty of simply glancing over this at times, so we are really working hard on our review process to ensure we keep our clients on-track to achieve their financial and lifestyle goals. It's about keeping the messaging consistent to achieve consistent outcomes for clients."

Differentiate

In a competitive market, how does Randall stick out from the crowd?

It's a question that momentarily stumps him.

"I don't know if I'm that different from other practitioners," he says. "As Carl Richards said: 'Honesty is a differentiating factor.' I've never done the wrong thing by my clients and I've always 'sweated bullets' over the advice I've given. But I don't think this is unique and I believe the majority of practitioners already do that.

"At HPH Solutions, we are just honest, hard-working planners, committed to improving our business."

However, he concedes that as a professional, he still has a lot of improving to do, and that includes becoming a better listener. He admits he tends to talk too much in client meetings, but is working hard on his skills to address this.

Advice

So, as this year's national winner of the FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award, what advice does Randall have for any aspiring CFP professional?

"I would highly encourage them to do it," he says. "Having a well-marketed designation does stand you in the highest professional circles. And once you're a CFP practitioner, your quest to improve and learn doesn't stop. And that's a good thing.

"The CFP designation is something you can hang your hat on but you've got to continue to earn the right to wear it. And that means a commitment to learning, adhering to the FPA Code of Conduct, providing ongoing quality advice and really caring about your clients. Empathy is one of the most important qualities of a financial planner, and you need to have this in spades."

As the 2014 national award winner, Randall intends to use this honour over the next 12 months to raise awareness of the CFP designation and share the message that financial planners do make a difference to the lives of their clients.

To read Randall Stout's winning client case study, go to p22.

For a list of the national and state winners in the three categories of the 2014 FPA Awards, refer to p8.

Client Case Study

The following is the client case study Randall Stout CFP® submitted as part of his national winning entry for the 2014 FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award.

My existing clients – Alisha and Gavin – set up a legal practice in 2009. I had sorted out their insurances with life, TPD, trauma and income protection. When they had their first baby, we reviewed the cover amounts. It was pleasing for all of us that their legal practice and income had grown. As such, we have increased their income protection to reflect and insure their growing income.

Alisha's mum Asha was the practice manager in their legal firm. Alisha's dad Pravin had a SMSF, which they used to purchase the business premises for their legal practice. Alisha and Gavin joined the SMSF. They didn't seek my advice on the non-recourse loan arrangement they used to purchase the property. They did this in consultation with their accountant. I made sure Alisha and Gavin increased their SMSF insurance to cover the non-recourse loan, but we never met the parents, Asha and Pravin (who was a GP).

On the 23 October 2013, Alisha called to tell me her dad had died with a brain aneurism unexpectedly. Alisha wanted to make an appointment with me to help her mum, Asha. When this happened, I was very concerned for her family.

At the initial meeting, Asha and Alisha were very upset. Pravin did have life insurance, so we began by helping them with the claim form, even though we were not the adviser on the policy. The AMP sum insured was $864,000.

Two weeks later, I had my discovery meeting with Asha and listened carefully to her concerns. Pravin handled the financial decisions and she was sceptical of financial advisers, having never seen one, and now she was a widow.

Her daughter Alisha attended our second meeting. We took it slow, as Asha would break down crying during the meeting. Asha and Pravin had a lovely marriage which was to be envied. They had been together for over 35 years.

Two weeks later, we presented our HPH terms of engagement, even though we had assisted with the insurance claim process. Our advice was to focus on helping Asha to deal with the insurance proceeds that Pravin had set up to keep her protected.

Two days later, she engaged us on a fixed monthly fee retainer of $550 per month to be funded by their SMSF. She was very comfortable with me and knew we cared about her and had her best interests at heart.

We had our confirmation meeting three weeks later to detail our comprehensive fact-finding process and her current financial position, including the pending life insurance claim.

We have provided three SOAs to Asha over the last nine months. This advice was presented on the 14 January 2014 after her first Christmas without her husband. This SOA focused on:

- Personal insurance, including use of the AMP Life policy on Pravin
- Investment of her superannuation
- Estate planning
- Personal investments.

Recommendations for insurance claim proceeds of $864K

Our recommendations were as follows:

1. Repay the home loan of $103K;
2. Retain a cash reserve of $30K;
3. Contribute $260K as a non-concessional contribution to the SMSF fund to purchase the adjoining premises to provide capacity for the growing legal firm;
4. Refinance the $311K NAB non-recourse SMSF loan with her personal funds. Over 10 years, the loan will be repaid at the RBA cash rate plus 2.5 per cent. This saves the SMSF on interest rate and fees, and provides a better than term deposit return for the inheritance;
5. Invest $135K in a diversified managed fund portfolio to provide income and liquidity; and
6. Provide for the final estate expenses.

Financial outcome

- Debt-free.
- Cash reserve plus liquid managed fund available to meet any unexpected expenses.
- Providing larger business premises with an attractive rental return to expand the practice.
- The NAB no longer charging an interest rate on the refinanced non-recourse loan. The loan repayment to Asha providing extra income until she reaches retirement age.

Non-financial outcome

- Peace-of-mind being debt-free.
- Increased financial confidence to manage her own finances.

Superannuation

She used the life insurance proceeds from her husband to help the SMSF expand the business real property portfolio (larger premises). Asha was comfortable with commercial property leased by their legal practice on a fixed rental return.

We used a non-concessional contribution for Asha to purchase the second business premises tax-free with no borrowing. We reviewed the SMSF investment strategy to incorporate the non-recourse loan refinance from the life insurance proceeds with a loan agreement. We assisted her to

rollover her OnePath super fund to boost the SMSF savings.

With Pravin's death, we helped the SMSF update the change in trustees, its property ownership and bank accounts. We also placed life insurance on Asha's life, so the SMSF will have the liquidity to payout her death benefit, while investing surplus cashflow in the SMSF to build the liquidity in their fund.

Financial outcome

- Consolidated the superannuation within the existing SMSF.
- Fixed the rental return for the SMSF from business real property.
- Reduction of the interest rate on the SMSF non-recourse loan and removal of NAB as the lender.
- We arranged the non-recourse loan agreement and managed the lease agreement preparation on the new business premises for the SMSF.

Non-financial outcome

- Ability to expand the legal practice premises.
- Asha benefiting from the interest plus principal repayments from the non-recourse loan.

Insurance

We cancelled Asha's exiting life and TPD cover, as she is financially secure. The existing insurance is no longer needed.

Pension advice

The SMSF didn't have the liquidity to pay out Pravin's lump sum death benefit. Instead, Asha took out a death benefit pension then commuted the pension after the legal six-month term.

Asha was able to draw a pension payment from the SMSF, and then increase her member accumulation benefit with Pravin's death benefit after the statutory period.

Estate planning

We helped Asha change the ownership of assets from joint names to her name. We had a joint meeting with a lawyer to revise her Will and prepare a new Enduring Power of Attorney, and prepared her SMSF death benefit nomination to pass her benefits to her estate.

Financial outcome

- Tax-effective estate planning.

Non-financial outcome

- Peace-of-mind knowing her daughter and grandchildren will be properly provided for with her updated estate planning.

Other benefits

- We encouraged Asha to go for grief counselling, which really helped her after the sudden loss of her husband.
- She knew our fee was fixed for a 12-month term and we would help her at her pace (which was slow). She paid no commissions or brokerages on her investments.
- All our recommendations were implemented over a six-month term.
- In our progress meeting after the implementation, we recommended a salary sacrifice strategy to boost her retirement savings. She remains an employed practice manager in the legal practice.
- We spoke with her regularly to see how she was going.
- She would call us often when she needed our help.
- We had the privilege of helping remove Asha's financial uncertainty and use the insurance proceeds wisely to achieve her objectives.
- Asha is now on a three week holiday in Europe on her own.
- I was able to use her case study in our 2014 'Securing your financial future' publication.
- Asha is a strong advocate for our business.

"We had the privilege of helping remove Asha's financial uncertainty and use the insurance proceeds wisely to achieve her objectives."

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Outlook 2015

Whether it's FoFA, central bank rate decisions, or risky investment markets, many of the key issues planners will be grappling with in the coming year sound depressingly familiar. However, while the tune may be familiar, the words are slowly changing.

Rising geopolitical risk on a number of fronts is combining with diverging regional economic growth patterns and central bank strategies. Add in the wildcards of Middle East conflict and the uncertain path of the ebola outbreak, and the economic outlook is interesting, to say the least.

When it comes to investments, record high prices for government bonds and a dearth of other attractively priced assets is creating a very tricky environment for planners to navigate as they invest client assets.

In addition, 2015 is likely to see planning businesses face up to the challenges presented by the introduction of a new education and professional standards environment.

To help prepare for the next 12 months, *Financial Planning* asked various economic, investment and regulatory experts for their views on this complex journey ahead of financial planners.

The economists' view

Although the slow recovery of the global economy appears to remain on track, the performance of individual economies is starting to diverge. This means the economic outlook for 2015 is somewhat different to the past few years, according to HSBC chief economist Australia and New Zealand, Paul Bloxham, and David Bassanese, chief economist at BetaShares Capital.

How do you predict the global economy will perform in 2015?

Paul Bloxham (PB): Global growth is expected to pick up in 2015, led by an ongoing recovery in the US and continued solid growth in China. The positive outlook for these two giant economies is expected to provide a tailwind to growth in emerging Asia, where growth is forecast to lift modestly in 2015, and to lift Latin America from its current economic malaise.

In contrast, conditions are expected to remain weak in Europe, where the economies are constrained by high debt levels and the single-currency arrangement. Europe remains a key downside risk to the outlook, particularly given the increasing risk of deflation.

David Bassanese (DB): Global growth is likely to remain fairly muted next year, with improvement in the US economy offset by continued sluggishness in Europe and Japan. Growth in emerging markets will be hampered by a weakness in commodity prices, and likely bouts of financial market volatility once the US begins to raise interest rates.

Risk appears mainly to the downside, though with global inflation low, the good news is central banks have scope to provide further quantitative stimulus if need be.

What are likely to be the key trends in the Australian economy?

PB: We expect Australia's great re-balancing act to continue. Mining investment is expected to fall further in 2015, but at the same time, exports of resources are ramping up and conditions outside the mining sector are improving.

The pick-up in the non-mining sectors has, so far, been led by a strong rise in housing prices and residential construction, which we expect to continue in 2015, supported by ongoing low interest rate settings.

Improving conditions in the housing market are also expected to permeate through to other sectors of the economy, particularly the services sector. The lower Australian dollar is also expected to support growth, boosting exports of tourism and food.

DB: The local economy is negotiating a number of major cross currents, with intensifying weakness in mining investment, yet a lift in home building and some likely support to growth from the weaker Australian dollar.

Re-balancing toward non-mining trade exposed sectors – driven by a notably weaker Australian dollar – will be the key economic trend. Overall, growth is likely to remain a little below trend, with the unemployment rate rising to, and holding at, around 6.5 per cent.

What will be the impact of geopolitical uncertainty and conflict?

PB: Geopolitical uncertainty continues to be the 'known unknown' in terms of its possible impact on the global economy. Not only does it remain difficult to predict which geopolitical issues will move to the forefront in 2015, but it's also difficult to predict what they could mean for the economy.

A key development in 2014 has been increased geopolitical tension in the Middle East, but, surprisingly, at the same time, oil prices have been falling.

DB: It really depends on where it stems. Middle East instability has done little to stop the fall in oil prices, though any escalation in Russia-Ukraine tensions will damage European business sentiment, and most critically, in Germany. Low oil prices are hurting Russia, which could lead to more diversionary military adventures by President Putin.

China's ability to manage its own slowing economy remains a major risk, especially if economic unrest leads to political unrest. Another risk is how emerging markets more generally cope with a likely rise in US interest rates next year, and likely withdrawal of foreign capital from their markets.

Continued on p26

Low oil prices are hurting Russia, which could lead to more diversionary military adventures by President Putin.

The investment managers' view

As in recent years, the performance of investment markets next year is likely to remain hostage to central bank decision-making. Few asset classes appear cheap and risk needs to be central in asset allocation, according to Steve Miller, head of fixed income at BlackRock Australia and Perpetual head of investment market research, Matt Sherwood.

What will we see in the year ahead for investment markets?

Steve Miller (SM): Much will depend on the actions of the central banks this year, as we are likely to get some meaningful variations in their behaviour. It is expected the US Federal Reserve may begin to hike rates at some stage in 2015. The same is likely for the Bank of England. The European Central Bank will explore options for further (unconventional) monetary accommodation measures. The Bank of Japan, after aggressively pulling the QE trigger in 2013, surprised markets somewhat by announcing an expanded QE program.

With Australia faced with the continuance of sub-trend growth and an inflation rate comfortably within the target band, we think the RBA may well decide against moving the current cash rate throughout 2015.

Matt Sherwood (MS): Next year will present a different investment environment relative to the past six years. It is likely to be characterised by lower returns, increased volatility and heightened variation between regional economic growth, policy support and inflation. The prevailing environment of macro risks, unattractive valuations in US stocks, and almost universally expensive government bonds, makes dynamic asset allocation an important tool for managing portfolio risk.

Which asset classes are likely to perform best?

SM: Government bond yields in the developed world are pretty close to multi-decade lows and on that basis, look to be expensive. However, while we anticipate yields to rise a little, a 1994 'blow-off' at this stage looks unlikely.

Equity markets don't look to be as challenged in a valuation sense, but it's difficult to say they are cheap. Aggressive non-conventional monetary policy in Europe and Japan should support those equity markets.

MS: Regardless of which asset class you choose, investors are likely to receive less return per unit of risk and while this is not desirable, it is the new norm. In the end, the ultimate driver of returns between asset classes is relative valuations and while share market valuations are approaching unattractive levels in some regions, bond markets are at the most expensive level in history.

In shares, markets will begin 2015 with full valuations and this is likely to make risk management and stock selection more important than it has been since 2009. In the end, the global growth environment is subdued despite record stimulus, but there are few imbalances at present, which means the current business cycle may be the longest on record and this will be constructive for earnings growth.

In contrast, a subdued growth environment is tougher for bonds, which are priced for a much weaker growth environment and the best that investors can expect here is the yield. Corporate bonds have more attractive return prospects than their sovereign peers, with higher yield and lower price risk.

What impact will global uncertainties have on Australian investment markets?

SM: The biggest risk for Australia remains China. China is obviously going through an adjustment phase where more growth needs to come from consumption and less from housing and (certain) other types of investment. That process will likely see continued sub-trend growth in Australia and no change in interest rates locally, along with likely further declines in the prices of Australia's exports and the Australian dollar. If the situation were to 'wobble' more severely in China, the blowback could be quite severe, resulting in even bigger moves.

MS: Currently, the Australian share market valuations are around their long-term average (about 15 times earnings) and this has historically provided an average return of +10 per cent per annum in the next five years, although one could argue the growth outlook is not as positive today as in previous cycles. However, downside risks to Australia have been mitigated to some extent by markets reducing their earnings expectations for 2015 to around +5 per cent. This rate seems achievable in an economy that will grow around +5 per cent in nominal terms.

Matt Sherwood

The regulatory view

When it comes to the key regulatory and legislative issues facing financial planners, FPA general manager, policy and conduct, Dante De Gori, believes many will be all too familiar. However, this is likely to be the year education and standards really come to the fore for the planning profession.

What will be the key regulatory and legislative issues in 2015?

Dante De Gori (DG): Although some of the issues of the day are frantic, others seem to be taking forever – like FoFA. With FoFA, we are inside the fourth year and still have not finalised the landing spot for the new regime. With the Federal Senate disallowing the FoFA regulations in November 2014, FoFA will continue to be on the agenda for 2015. And even when the legislation is passed, there will still be a settling-in period.

The Government's budget issues around superannuation and tax reform will also be continuing, so that will lead to plenty of uncertainty for planner strategies.

The Financial Services Inquiry (FSI) report is due out at the end of 2014, with the Government's response to be released in 2015, so that will set the agenda in this area. It will be particularly important in relation to retirement and longevity policy, especially the longevity risk issue. Possibly we will see new longevity risk products, and questions about whether the Government will mandate products or changes to tax rates in the pension phase. These have the potential to impact both planners and clients, rather than planners' businesses.

What will have an impact on planning businesses?

DG: In 2015, education will be a big issue for planners' businesses. The Parliamentary Joint Committee (PJC) report is due at the end of 2014 and it will include new entrance requirements and the transition requirements for existing planners.

Although this issue has been around for a while, there will be a big push in 2015 and it will definitely lead to changes. A key impact could be on the number of new planners available for recruitment into planning businesses. If one-year internships or supervised experience is required, the recruitment pipeline will change. Practices will need to think about how they will get new recruits and planners on-board and train them, and how they will get existing planners up to the new standards.

In 2015, we will be one year into the Tax Agent Services Act (TASA) regime, so practices will need to ensure they are registered while the current concessions are still available. There will also be more information available on training courses in tax and commercial law and these will need to be completed by 2016-17.

Are new areas likely to receive regulatory/ legislative attention?

DG: Hopefully, this will not occur, as the Government has been indicating its interest lies in deregulation and removing red tape, rather than in regulating new areas.

Also, there is less funding being provided to government agencies like ASIC, which means there will be a bigger role for professional bodies and the introduction of some form of co-regulatory model.

We expect 2015 to be the year of education and professional standards. In relation to education and standards, it will be where the rubber hits the road in terms of what it looks like to be a financial planner in Australia.

Dante De Gori

The Government has been indicating its interest lies in deregulation and removing red tape, rather than in regulating new areas.

Ownership of assets and estate planning

FRANK CAMILLERI
UNISUPER

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Ownership structures of assets**
- **Estate planning considerations**
- **Implications of contributions to superannuation**

An asset can be owned in a number of different ways. Each ownership structure has various consequences including:

- Tax on income and capital gains;
- Estate planning;
- Asset protection;
- Accessibility;
- Withdrawal costs and taxes; and
- Implications on death.

The appropriate ownership structure may require consideration of one or more of the above elements. Moreover, each element may have a conflicting outcome. For instance, a particular ownership structure may provide estate planning benefits but may be weak from an asset protection perspective.

Therefore, the right ownership structure will generally require consideration not only of a client's needs, goals and personal circumstances, but possibly the personal circumstances of their direct and extended family.

In addition, these considerations can be dynamic and the appropriate way a client should own their assets may need to change as time passes.

It is imperative that proper consideration be given to the way a client owns their assets and the implications of any change in ownership.

The purpose of this article is to consider the implications of owning assets both personally and via superannuation, the various issues that need to be considered with both these methods of ownership and finally, the strategic opportunities that are available so that the client's position is optimised over time.

Note: In this article we assume that an individual has a valid and up-to-date Will.

An important concept here is that two types of ownership exist.

- Equitable ownership refers to the individual or entity who has control over the asset; while
- Beneficial ownership refers to the individual or entity that benefits from the asset.

Depending on how the asset is owned, equitable and beneficial ownership can sit with the one individual or entity, while in other situations it can sit with different individuals or entities.

Different ownership structures

There are a variety of ways assets can be owned, including:

- Personally;
- Via a superannuation fund (including a Self-Managed Superannuation Fund);
- Via a Family Trust (Discretionary or Fixed Trust);
- Via an Investment Bond; and
- Via a Company.

In this article, we will focus on personal ownership and superannuation, as these are the two most common structures.

Owning an Asset Personally

The simplest and most common way to own an asset is in one's personal name. This can typically be by one individual on their own or jointly with another person (i.e. their partner or spouse). While an asset can be owned for more than two people personally, this is uncommon.

Where an asset is owned personally, any income and capital gains generated by the asset are taxed at the owner's marginal tax rate plus relevant levies (i.e. Medicare levy and the deficit levy where applicable). Personal ownership does not offer much in the way of asset protection and from an estate planning perspective, the implications will depend on whether an asset is owned by one individual or jointly.

Where an asset is owned by one individual, generally their Will dictates to whom that asset will pass on their death. If the asset is owned by two people, the estate planning implications will depend on whether the asset is owned jointly or as tenants-in-common.

Joint ownership means that the asset will automatically revert to the ownership of the survivor – that is, each individual's Will is generally irrelevant. In contrast, if the asset is owned as tenants-in-common, each individual owns a discrete share of the asset and their Will dictates to whom their share will be transferred on their death.

It should also be noted that transferring an individual's share to the ultimate beneficiary need not occur at the date of the original owner's death. This is commonly referred to as a life interest.

For example, an individual may provide a life interest in a home to another individual. What this means is that the individual with the life interest can reside in the home for the rest of their lives. That is, they have beneficial ownership. However, the home is owned by another individual and this individual has equitable ownership.

Let's consider some case studies to demonstrate some of the possible strategic implications of asset ownership.

Case study 1: Joint ownership vs tenants-in-common

Tom and Sarah have been married for a number of years. Sarah's mother, Jane, is elderly and while she is able to live independently, Tom and Sarah decide that it is important that they live closer to Jane.

Following a family meeting, it is decided that Tom and Sarah will sell their home, Jane will sell hers, and they will combine the proceeds to purchase another property with a larger block of land; a bungalow will be built for Jane at the rear of the property.

They locate the ideal property and purchase it in joint names (i.e. in Tom, Sarah and Jane's name).

Jane's objective is that her share of the property be left to her daughter and makes provisions in her Will to this effect. Her objective is that on her death, 67 per cent of the property is owned by Sarah and 33 per cent by Tom.

In this case, joint ownership may result in Jane not achieving her estate planning objective with respect to this property. Upon her death, her share in the property will automatically pass to both Tom and Sarah equally, meaning they each effectively own 50 per cent of the property. This is regardless of the fact that Jane's Will seeks to transfer her share of the property to Sarah.

In order for Jane to achieve her objective, the property could have been acquired as tenants-in-common with each individual owning a discrete one-third share.

Jane's Will would then be effective in transferring her discrete share to Sarah, with the result that she would own 67 per cent of the property and Tom 33 per cent on Jane's death.

Case study 2: Life interest

Neil and Doris have recently entered into a de facto relationship. Doris is currently in a rental property and it is decided that Doris will move in with Neil, as he owns his own home. Neil's Will seeks to transfer his home to the children of his first marriage, Tony and Claire.

If Neil's Will remains unchanged, the default position is for the home to transfer to his children. While Doris may be able to challenge the Will so that she can continue living in the property, this would naturally be very stressful and expensive.

An option available to Neil to ensure Doris can continue living in the home after his death, is to give Doris a life interest to stay in the home for the remainder of her life (i.e. she enjoys beneficial ownership).

His Will could also dictate that the home subsequently transfers to his children upon Doris' death (i.e. equitable ownership). While his children will have to wait for their inheritance, he can ensure that Doris is not forced out of the home after his death.

Superannuation

While this is often overlooked, superannuation is an ownership structure in its own right. In effect, a superannuation fund is a special type of trust where equitable ownership rests with the trustee and beneficial ownership with the member. In short, the trustee of the superannuation fund manages the assets of the fund for the benefit of the members.

As an ownership structure, superannuation is designed to encourage individuals to save towards their retirement. In order to encourage this, superannuation enjoys tax concessions other ownership structures do not, however, because of these tax concessions, the amount that one can contribute annually is limited.

In addition, an individual is generally only able to access their benefit upon retirement after their preservation age (currently age 55 but gradually increasing to 60 from July 2015).

From an estate planning perspective, the member's Will cannot automatically dictate to whom an individual's superannuation death benefit can be directed. Where a member has a dependant as defined under superannuation law, they are able to bypass the Will entirely and direct that their death benefit be paid to their superannuation dependant(s).

However, a member can elect for their superannuation benefit to be distributed as directed in their Will (i.e. by nominating their legal personal representative, or executor, as beneficiary of their superannuation fund). If the member does not nominate a dependant, or does not direct their benefit be distributed via their Will, the trustee of the fund has full discretion as to whom the benefit will be paid.

Estate planning considerations

Ultimately, the client's objectives will dictate the best method

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to distribute a superannuation benefit upon their death.

Where they have one or more dependants under superannuation law, they may wish to bypass the Will to ensure the death benefit is transferred in the manner they wish. This is because a Will can be challenged, while theoretically, a properly executed Binding Death Benefit Nomination (BDBN) cannot. I say 'theoretically', as some consider that until the legitimacy of a BDBN is tested in court, one cannot be certain as to the extent of certainty a BDBN provides.

In contrast, transferring a superannuation death benefit via the member's Will may be desirable, as this may allow for the death benefit to form part of the member's estate and ultimately be directed to a testamentary trust.

From a taxation perspective, a superannuation death benefit may be subject to tax on transfer to the beneficiary if the beneficiary is not a dependant under taxation law.

Therefore, an individual may be a dependant under superannuation law and be able to receive the death benefit directly, but not be a dependant under taxation law and hence the benefit they receive may be subject to tax.

Tax of 15 per cent plus the relevant levies, is generally deducted on the taxable component of a death benefit, however, this can be higher.

A superannuation death benefit may be paid by way of an income stream where the beneficiary is a dependant under taxation law.

Finally, the way in which an individual receives a superannuation death benefit may impact on whether their death benefit is increased by way of the anti-detriment payment.

Case study 3: Superannuation death benefit to non-tax dependant

Allan has a superannuation benefit valued at $500,000 (60 per cent of which is the taxable component) plus a further $500,000 in a term deposit. Allan has completed a BDBN for his superannuation benefit to be paid to his adult son, Graham. In his Will, he has sought to transfer the value of his term deposit to his daughter, Alice.

Assuming his Will goes unchallenged, if Allan were to die today, Alice would receive a $500,000 benefit.

In contrast, the superannuation death benefit paid to Graham will be subject to tax of $45,000 plus the relevant levies, meaning the net death benefit received by his son will be less than $455,000.

Allan's objective of ensuring his children received an equivalent benefit would not be achieved.

There could be various ways Allan could seek to address the imbalance. For example:

- He could make a BDBN equally to both his children and seek to equally split his term deposit to both his children via his Will. While the death benefit would still be subject to tax, the tax would be equally split between his children.
- Another option is that he could either transfer the value of his superannuation equally to his children prior to his death (this would generally not be subject to tax) or withdraw the value of his superannuation account and invest it into his personal name. Either option may avoid the lump sum tax levied on the superannuation death benefit, however, the latter option may be worthwhile, as Allan would retain full control.
- Another alternative could be that Allan compensates Graham from other assets, so that overall distribution to his children is equal.

As you can see, there are various options.

The best option for Allan will depend upon his needs, objectives and personal preferences. The key issue here is that these issues need to be discussed early on to ensure that Allan's estate plan meets his objectives.

Implications of contributions to superannuation

Contributions to superannuation is a common strategy recommended by advisers due to the significant tax concessions available within the superannuation environment. While the amount one can contribute pre-tax is relatively low, substantial after-tax contributions can be made.

For example, based on the non-concessional cap (NCC) available under the bring-forward rule, an individual could contribute up to $720,000 over a relatively short period or $1.44 million over five financial years. For couples, these figures double to $1.44 million and $2.88 million.

The estate planning implications of such a substantial change in structures must always be considered.

Let's consider the following case study to demonstrate some of these considerations.

Case study 4: Transfer of assets into superannuation

John and Bethany own an investment property jointly. Early in the 2014-15 financial year, this property is sold for net $1.2 million, with the proceeds transferred into a term deposit in Bethany's name. Shortly after, John and Bethany seek the advice of a financial adviser. Based on their current asset position, the relative values of their superannuation accounts and the fact they have not made any after-tax contributions previously, they are advised as follows:

- Both John and Bethany to make after-tax contributions of $180,000 during the 2014-15 financial year; and
- Bethany to make a $540,000 after-tax contribution during 2015-16, with the remaining $300,000 contributed into John's superannuation.

What have been the estate planning implications of the above scenario?

- When John and Bethany jointly owned the investment property, upon either of their deaths, the survivor would automatically take full ownership of the property.
- During the period from the date the net proceeds are received ($1.2 million) until the first tranche of after-tax contributions are made, the value of the term deposit in Bethany's name is subject to the terms of her Will.
- When the first tranche of after-tax contributions are made ($360,000), the portion of the sale proceeds contributed to superannuation are subject to any binding or non-binding nomination that John or Bethany have made. The remaining $840,000 in the term deposit remains subject to the terms of Bethany's Will.
- Finally, once the contributions are made in 2015-16, the net sale proceeds of the investment property are subject to any binding or non-binding nomination John and Bethany may have.

The above implications are simplified, so that the underlying message is not lost.

As assets pass through different ownership structures (i.e. personal name to superannuation), the estate planning implications will vary and not taking these into account may result in an adverse outcome.

Taking an extreme example, John and Bethany may not have Wills due to their largest asset (investment property) being owned jointly. Once the investment property was sold, John and Bethany's estate planning takes on a new dimension, and this should result in their estate plan being reviewed.

Summary

Estate planning is an important part of a client's financial plan and is often only paid cursory attention. On many occasions, the importance of reviewing an estate plan is not conveyed to clients nor is the client referred to an estate planning specialist for advice.

While financial planners cannot generally draw up the documents to implement an effective estate plan, they can make clients aware of the possible estate planning issues that may be present, discuss these intelligently with the client and refer them to a specialist to ensure they get the right advice.

In addition, financial planners have a role to play in ensuring that the estate planning specialist is aware of the financial planning issues relevant to constructing an estate plan.

It is clearly in the client's best interest to do so.

Frank Camilleri is Advice Development Manager at Unisuper.

QUESTIONS

1. In circumstances where an asset is owned jointly, and not as tenants-in-common, which of the following statements is correct?

a. Upon the death of one of the owners, his or her share forms part of their estate and is directed to one or more beneficiaries via their Will.

b. Upon the death of one of the owners, his or her share automatically transfers to the ownership of the surviving owner.

c. Upon the death of one of the owners, an independent trustee must determine how his or her share is distributed.

d. None of the above.

2. According to this article, which is the simplest and most common form of asset ownership?

a. Company.

b. Trust.

c. Superannuation.

d. Personal.

3. Can a superannuation death benefit be subject to tax on transfer to a beneficiary?

a. Yes, where the death benefit is paid to a tax dependant, tax of 15 per cent will generally be payable (plus the relevant levies) on the taxable component.

b. Yes, all superannuation death benefits are generally subject to a 15 per cent tax on the taxable component.

c. Yes, where the death benefit is paid to an individual who is not a tax dependant, tax of 15 per cent will generally be payable (plus the relevant levies) on the taxable component.

d. None of the above.

4. An individual should review their estate plan if they transfer a substantial amount from their personal name into their superannuation fund. True or false?

a. True.

b. False.

RACHEL LEONG
BT

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Income protection insurance inside and outside superannuation**
- **Tax treatment of premiums**
- **Pros and cons of income protection insurance inside superannuation**

Innovation with income protection

Take-up of income protection is low, with only one-in-three Australians holding this type of insurance[1]. In this article, we discuss not only what clients really value when it comes to income protection insurance, but also what options are available to increase affordability.

There has been significant innovation by insurers in the past few years – whether it's using income protection for business purposes, creating a solution that eliminates issues with access or reduction of benefits, or going the extra mile to support the insured's wellbeing and recovery. These days, income protection policies are not all the same.

Income protection for a business purpose

Clients may own income protection insurance because of personal reasons, and it's important to understand what those reasons are. We know that our ability to earn income is our most valuable asset. We also know that if income stops, the bills don't and the impact is felt very quickly.

According to the latest cost of living study, Australia has two cities in the top 10 most expensive cities in the world, with Sydney coming in at fifth and Melbourne at eighth[2]. In addition, the average percentage of after-tax income spent servicing debt in Australia is 45 per cent[3]. Along with being exposed to a high cost of living, working Australians have a one-in-three chance of being disabled for three months

Case study: Key Person Income in action

Chris and Heath own equal shares in a financial advice business, Dollars & Sense. They have four employees, including one receptionist and two paraplanners. Their gross profit (before tax and expenses) is around $1.6 million per annum, and Chris and Heath are each responsible for around $400,000 per annum of new business.

As Chris and Heath generate the majority of the business revenue, if something were to happen to either one of them, their client bases and the revenue they produce would be at risk.

What can Chris and Heath do to protect their business?

Chris and Heath look at putting Key Person Income insurance in place. As they are each responsible for $400,000 per annum in gross profit as new business, they can be insured for this amount divided by 12 as a monthly benefit. This means Chris and Heath would each be entitled to a $33,333 monthly benefit.

The policies are owned by Dollars & Sense and the premiums are paid by the business. Each policy has a 30-day waiting period, which means that a benefit becomes payable if the key person insured under the policy is disabled for longer than 30 days.

If Chris or Heath becomes unable to work due to sickness or injury, the business can receive up to $33,333 per month for up to 12 months. This can help the business to continue to pay bills, loan repayments and employee salaries. It can also help the business to cover the cost of finding and training a replacement if necessary.

The outcome is the Key Person Income insurance benefit can help Dollars & Sense to survive if one of the partners is unable to work due to sickness or injury, with minimal disruption to its cashflow.

or more before age 65[4]. These statistics provide a compelling reason for every Australian to own income protection insurance.

Now let's put that in a business context. Up until very recently, Australian businesses have only been able to insure against the negative financial impact, which would arise if a key person of the business dies, or suffers from a total permanent disability (TPD) or trauma event. However, the unexpected temporary absence of an owner or revenue-generating employee due to sickness or injury can also have a severe financial impact, especially for small businesses where the revenue may be generated by a few people.

Key Person Income cover can be used to help small businesses protect against this financial risk by providing a monthly benefit to the business for up to 12 months if an insured key person is unable to work to their full capacity due to sickness or injury.

What this means is that the business is covered more broadly. In comparison to key person TPD policies, the insured person does not need to suffer from a severe disability to qualify for payment. In addition, it allows payment to come through more quickly. This is because the doctor does not need to determine, and be prepared to certify, that the insured is disabled permanently. (See Case Study.)

Increasing affordability

There are different ways that an income protection premium can be reduced. Options include increasing the waiting period and/or decreasing the benefit period.

Owning insurance inside superannuation may provide access to reduced premiums and/or the premiums can be funded from mandatory contributions or the accumulated balance – leaving disposable income untouched.

Inside vs outside super

Features of income protection insurance inside super

There are restrictions on what features can be offered on an income protection policy inside super, namely because of:

- The sole purpose test;
- The requirement to align to the *Superannuation Industry (Supervision) Act's* conditions of release for temporary and permanent incapacity; and
- benefits that represent a period greater than the period of incapacity.

In relation to income protection insurance, the relevant part of the sole purpose test is the provision of benefits upon termination of employment due to ill health. Where particular features are not aligned with the sole purpose test, they cannot be part of the offer from super.

Pre-1 July 2014 policies

Where the inclusion of particular features meet the sole purpose test, but represent a period longer than the period of incapacity, these amounts will be retained inside super.

This may seem like a small issue, however, it should be remembered that many insurance policies inside super are standalone, that is they are in a non-accumulation super fund, such as a master trust, and investment options may not be available. Therefore, any retained portions of income protection payments will not grow due to earnings, and will in fact be eroded by inflation.

A tax deduction in relation to income protection premiums can only be claimed by the trustee of the super fund if the benefits payable from the policy are because of the individual's temporary inability to engage in gainful employment. Therefore, if the premium is to fund any other benefits, that portion of the premium will not be tax deductible to the super fund trustee.

To counter any issues in relation to the sole purpose test, restriction on access to benefits or tax deductibility of premiums to the super fund trustee; super-linked income protection products have emerged. The super fund trustee owns a policy that holds all of the benefits releasable from super and the individual owns a second linked policy that covers all other benefits. This allows the majority of the premium to be funded from super but also allows the client to have more comprehensive income protection coverage than would be possible wholly inside the super environment.

The two policies are linked, with the appropriate level of premium payable by the super and non-super owners. It is important that premiums are paid by each owner, as the super fund trustee cannot use any super fund assets to procure an immediate/pre-retirement benefit for a member of the fund. If the trustee were to do so, it would be deemed they were providing financial assistance to a member. This would be in breach of the investment standards that a trustee must always uphold.

Having the two linked policies enables payment of proceeds from both policies at the same time, as each policy provides different benefits. For example, if the insured person was unemployed at the time of illness or injury, the proceeds would not be payable from the policy inside super. However, the payment may be made from the non-super owned income protection policy.

Post-1 July 2014 policies

Super fund trustees are now restricted in what new insurance policies can be offered from their fund in that any policy must be releasable under one of four conditions of release: death, terminal medical condition, permanent incapacity or temporary incapacity. Obviously, in the case of income protection, the relevant condition of release is temporary incapacity. Therefore, because of the new rules, all proceeds on new policies will be releasable and 100 per cent of the premium will be tax-deductible to the super fund trustee.

Super-linked income protection policies can still be used under the new rules to provide comprehensive income protection cover.

Continued on p34

Tax treatment of premiums

Due to the general tax-deductibility rules, in an ordinary income protection situation, we know that part or all of the premiums can be claimed as a tax deduction by the individual. The tax saving is equal to the premium multiplied by the individual's marginal tax rate (including Medicare and debt levy if applicable).

In the case where income protection is held inside super, the trustee of the super fund can claim a tax deduction for part or all of the premiums paid (depending on whether it is a pre or post 1 July 2014 policy). They may then pass this on to the individual's super account to offset contributions tax (assuming pre-tax contributions).

Notably, we are in the same tax situation whether inside or outside super. Therefore, we ask ourselves why consider owning income protection insurance inside super? For the most part, it is because of cashflow reasons. The individual may also have access to cheaper premiums through group rate discounts. In addition, they can insure up to the automatic acceptance limit (AAL) without being underwritten. However, this needs to be weighed up against the prospect of a policy with pre-existing condition exclusions. Of course, if they subsequently wish to insure at a higher level or above the AAL, underwriting will generally need to occur.

Let's look at a case study where we have Ringo, salary of $85,000 with an income protection premium of $1,480 per annum. In Table 1, we compare owning income protection insurance inside super where premiums are funded from Superannuation Guarantee (SG) contributions, compared to owning income protection outside super.

Table 1

	Income Protection outside super	Income Protection inside super
Total package	$93,075	$93,075
Less SG contribution	$8,075	$8,075
Gross salary	$85,000	$85,000
Less premium	$1,480	n/a
Taxable income	$83,520	$85,000
Less PAYG and Medicare Levy	$20,520	$21,097
Net disposable income	$63,000	$63,903
Super contribution	$8,075	$8,075
Less premium	n/a	$1,480
Less contributions tax	$1,211	$989
Net contribution	$6,864	$5,606
Total net package	$69,864	$69,509

You will note that the total net package when income protection is owned outside super is more than the total net package when income protection is owned inside super. This is because when income protection is owned inside super, the tax deduction reduces taxable income to the fund at a rate of 15 per cent. Compare this to when income protection is owned outside super, where the tax deduction reduces Ringo's taxable income at a rate of 37 per cent (plus Medicare levy). Therefore, the tax deduction has a greater effect when income protection is owned outside super.

Summary of pros and cons of income protection inside super

When deciding whether to hold income protection inside or outside super, financial planners should weigh up the advantages and disadvantages, as summarised in Table 2.

Claims innovation

Tele-claims

In striving to make the claims process as swift and easy as possible, while making life easier for claimants at a difficult time, some insurers have introduced a tele-claims service that allow claims to be assessed quickly over the phone without the need to complete a claim form or provide a signature. Data shows that as many as 34 per cent of income protection claims can now be paid via tele-claims[5].

Working with GPs and planners

It is now being widely recognised that work is the best place to recover. Insurers, GPs and planners should work together to help return the client back to work, once sufficiently recovered.

It is important for the insurer to work together with the insured person's GP, to help promote best practice in regard to returning to work. For example, studies have shown that if more GPs provided guidance on how to prevent recurrence of the illness or re-injury, the patient was twice as likely to return to work early. However, only 62 per cent of patients received this information[6].

Also, the traditional view by planners is that their role is to ensure the insurer pays the claim. This creates a perception by clients that insurers are untrustworthy. However, if a collaborative approach is taken by planners, clients will have more confidence that the insurer will carry out its obligations under the insurance contract.

Whole-person approach

For acutely disabled clients, there is a need to take a whole-person approach in their recovery. Instead of solely focusing on getting people back to work, innovative insurers are recognising their obligation to return people to wellness. This new philosophy may produce better long-term results.

Some insurers are recognising the opportunity to reduce the gap between what happens as part of the claims handling process and the expectations

and needs of the insured person. This approach could help reduce the increasing number of people on claim that are impacted by mental health issues as a result of their illness or injury, compounded by a traditional claims experience.

In light of all of the above, forward-thinking insurers are now focusing on creating a claims experience that approaches their clients' needs in a holistic manner and ensures they are mentally, physically, emotionally and socially well, before returning to work.

Conclusion

While insurers continue to innovate with their products and services, objections by clients must still be overcome. More often than not, the objection will be due to the cost of income protection insurance and the perceived value received for something they often think they will never use. However, it is a planner's role to highlight the necessity for income protection insurance and provide solutions that will provide the right amount of cover for each individual. This can be done so that the impact on disposable income is minimised.

It is also important for the planner to consider the impact of the claims experience and choose to collaborate with insurers that take a whole-person approach in their clients' recovery.

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

Footnotes

1. TNS/IFSA Investigating IP Insurance in Australia July 2006.

2. Economist Intelligence Unit's (EIU) Worldwide Cost of Living 2014 report.

3. Genworth International Mortgage Trends report 2011.

Table 2

Advantages	Disdvantages
- Cashflow impact low or nil. - Premiums can be funded from super contributions or balance. - If the insurer offers agreed value income protection, cashflow impact can be reduced for clients on fluctuating income. - Policy less likely to lapse. - Premiums may be cheaper if access to group rates available (however, this is not always the case). - Automatic acceptance limits under group arrangements. - Centrelink assessment if no offset clause.	- Fewer features unless super-linked income protection arrangement used. - Retention of benefits in super for pre-1 July 2014 policies. - Potential depletion of retirement savings. - Many insurers restrict their offer to indemnity value only. - Claims process may be longer. - Group insurance policies may have a number of other disadvantages, including pre-existing condition exclusions, not guaranteed renewable, cancellable cover etc.

QUESTIONS

1. The advantages of holding income protection insurance inside super include:

a. Reduction or elimination of the effect on cashflow.

b. Lower likelihood of policy lapse.

c. May be able to access limited cover under automatic acceptance limits (AALs) in the event the client is otherwise uninsurable for retail cover.

d. All of the above

2. Income protection can be used for a business purpose to:

a. Allow payment when illness or injury of the key person under an income protection definition.

b. Allow quicker payment of proceeds, as certification of permanent disability is not required.

c. Both of the above.

d. None of the above.

3. When clients can't afford income protection premiums, this can be addressed through:

a. A longer waiting period (if appropriate).

b. A shorter benefit period (if appropriate).

c. Owning part or all of the policy through super.

d. All of the above.

4. The disadvantages of owning income protection inside super include:

a. Fewer features unless a super-linked income protection arrangement is used.

b. Many insurers restrict their offer to indemnity value only.

c. Pre-existing condition exclusions on group insurance policies.

d. All of the above.

4. Australian Institute of Health and Welfare, 2006.

5. BT tele-claims statistics March-August 2014.

6. Journal of Occupational Rehabilitation 2006; 16:25-37. Study by Kosny A, Franche R-L, Pole J, Krause N, Côté P, Mustard C.

Quarterly Complaints – July to September 2014

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.

COMPLAINTS AND DISCIPLINARY REPORT
July to September 2014

Investigations ongoing as at 30 June 2014	7
New investigations	12
Investigations closed	8
Investigations ongoing as at 30 September 2014	11
Members suspended	0
Members expelled (CRC)	0
Members Terminated (Constitution) • Stuart Jamieson – clause 16.1(d) • Michael Irwin – clause 16.1(e)	2
Other Sanctions (CRC) (infringement notice – fine)	0
Referred to Professional Designations Committee for Sanction	0

Disciplinary Activity Summary

In the September 2014 quarter (July to September 2014), the FPA received 12 new complaints, finalised eight investigations and has 11 ongoing investigations. Of those ongoing investigations, two are continuing matters that have been referred to the FPA's Conduct Review Commission (CRC) as being potential breaches of the FPA's professional expectations. During this quarter, the CRC issued a full written determination in one of these matters, which is still within the 21 day period in which the member may request a review of the determination.

Define the Scope of the Engagement

During the quarter, the FPA received a number of complaints and enquiries in relation to disputed matters, relating to both members and non-members, which should have been defined in a documented terms of engagement, but were not.

Practice Standard (PS) 1.3 (Define the Scope of the Engagement) of the FPA Code of Professional Practice states that:

The Member and the client agree on the services to be provided… The Member describes, in writing, the scope of the engagement before any financial planning is provided, including details about: the responsibilities of each party (including third parties); the terms of the engagement; and remuneration and actual or potential conflict(s) of interest of the Member.

While adequately documented terms of engagement reduce the risk of anxiety, cost and other adverse effects associated with disputes, more so it is the hallmark of professionalism.

In one of the matters reported to the FPA, the client had signed various items of paperwork at the initial meeting with the planner and had provided verbal consent for the planner to prepare an advice document for an agreed cost.

In another matter reported to the FPA, the planner obtained written client agreement to prepare a risk advice document for which the planner was to be remunerated in full by commission.

However, in both cases the engagement was not adequately documented, in that, among other things, they omitted key aspects of the engagement, including the planner's remuneration arrangements in the event that the client terminated the engagement prematurely.

As it turned out, and from our experience it's not an unusual occurrence, shortly after entering the engagement both clients informed the planners they were terminating the engagement. Although this did not preclude the planners from seeking remuneration from the clients for costs already incurred in the completion of the advice documents to date, the planners were left vulnerable should the clients dispute the remuneration aspects of the engagement.

More broadly, defining the scope of the engagement establishes realistic expectations for both the client and the member. The client's informed consent to any limitation to the scope of the engagement is required and must be fairly obtained. The client's informed consent to a limited scope engagement is predicated upon the member first offering, and fully explaining the benefits of comprehensive financial planning to the client. (See Code of Ethics Principle 1 Fairness and Practice Standard 7.5 *Conflicts of Interest and Prioritisation.*)

In recognition that the client's willingness to participate in, or to afford, comprehensive financial planning may be limited, the member should discuss options for limiting the scope of professional services to be provided consistent with the client's needs and expectations in seeking professional services.

As a consequence, the member may, at the client's request, agree to limit the scope of the engagement (including that the elements of the engagement

and Discipline Report

are to be scaled or staged over an agreed timeframe) consistent with the client's needs and expectations in seeking professional services. (See Practice Standards 1.2 *Determine whether the Member can meet the client's needs* and 7.4 *Professional Judgement*.)

The member and the client may agree that the scope of the engagement covers one, several or all of the financial planning components (financial management, asset management, risk management, tax planning, retirement planning and estate planning), and/or is intended to address one, several or all of the client's financial planning needs (including, where the client is to be provided professional services in their individual capacity, their needs for cash-flow, debt, investment, risk, structuring, and estate planning).

A written document ensures mutual understanding and agreement between the member and the client about the terms of the financial planning engagement.

In setting out the terms in an engagement letter or disclosure document, the member includes the following:

- specific services to be included or excluded, such as implementation and review;
- the member's remuneration arrangements with respect to the engagement, including fees to be paid by the client;
- existing conflicts of interest, including those involving remuneration arrangements with third parties, and agreement to disclose subsequent conflicts of interest if or when they occur;
- specific parties to the engagement, including details of any legal and agency relationships which may exist;
- assurance of protection of client confidentiality;
- duration of the engagement;
- the client's responsibilities, including the full and timely disclosure of information;
- the member's responsibilities;
- provisions for terminating the client engagement; and
- procedures for resolving the client's claims and complaints against the member.

Additional information that may form part of the formal written document includes:

- the potential need to use other professionals during the engagement;
- an explanation of qualifications, licences and experience of individuals who will work with the client;
- specific limitations on the use of client information; and
- any other information necessary to adequately inform the client.

Circumstances may change the member's ability to provide services to the client, or the client may decide to terminate services or transfer to another professional.

Alternatively, the member may discover aspects of the client's circumstances which render the continuation of the engagement, as initially scoped, to be inconsistent with the member's professional obligations, requiring variation or discontinuation of the engagement by the member. (See Practice Standard 7.4 *Professional Judgment.*)

The member varies the engagement, disengages the client or facilitates the client's transfer to another adviser in a professional manner.

The requirement to define the scope of the engagement also applies to circumstances where the client voluntarily elects to utilise a transaction-only service, rather than to receive financial planning services.

Conduct Review Commission (CRC) workshop

The FPA held a CRC workshop during August 2014. The workshop was successful in:

- greeting and inducting the two most recent panel members appointed to the CRC;
- refreshing the knowledge of existing panel members with recent developments; and
- considering the future directions of the CRC.

The workshop also signified the transfer of the reigns of the CRC chair from Professor Dimity Kingsford Smith to Dr June Smith.

After seven successful years, Professor Kingsford Smith, the inaugural Chair of the CRC, decided not to seek re-appointment as Chair or as a member of the CRC panel. Professor Kingsford Smith built, in the reasoned determinations of the CRC, a significant body of work – the early jurisprudence of the private tribunal. This will be a legacy for those who follow. Professor Kingsford Smith built the foundations of a professional accountability system that will promote public trust and confidence in an emerging profession of financial planning in the years to come.

Dr Smith previously held the position of Deputy Chair of the CRC. Dr Smith currently holds a number of other appointments where she works with different stakeholder groups on matters related to ethics, professional standards and industry codes of practice. Her knowledge of financial planning ethics, corporations law and the professional standards of the FPA, is recognised by many stakeholders as extensive. Dr Smith also has significant and ongoing experience and expertise in the operation and procedures of professional tribunals and relevant decision-making bodies.

Dr Smith has a PhD in Law specialising in ethics and organisational decision-making within financial services organisations. Her thesis explored the factors that influence the ethical conduct and decision-making of financial planners.

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FPA Chapter directory

New South Wales

Sydney
Vicky Ampoulos
Chairperson
T: 0411 743 098
E: vampoulos@cba.com.au

Mid North Coast
Julie Berry CFP®
Chairperson
T: (02) 6584 5655
E: jberry@berryfs.com.au

New England
David Newberry AFP®
Chairperson
T: (02) 6766 9373
E: david@newberry.com.au

Riverina
Marie Suthern CFP®
Chairperson
T: (02) 6921 1999
E: msuthern@flynnsprake.com.au

Western Division
Peter Roan CFP®
Chairperson
T: (02) 6361 8100
E: peterr@roanfinancial.com

Wollongong
Mark Lockhart AFP®
Chairperson
T: (02) 4244 0624
E: mark@allfinancialservices.com.au

ACT

Claus Merck CFP®
Chairperson
T: (02) 6262 5542
E: claus.merck@actwealth.com.au

Victoria

Melbourne
Julian Place CFP®
Chairperson
T: (03) 9622 5921
E: julian_place@amp.com.au

Albury Wodonga
Wayne Barber CFP®
Chairperson
T: (02) 6056 2229
E: wayne@mws.net.au

Ballarat
Paul Bilson CFP®
Chairperson
T: (03) 5332 3344
E: paul@wnfp.com.au

Bendigo
Gary Jones AFP®
Chairperson
T: (03) 5441 8043
E: garyjones@
platinumwealthbendigo.com.au

Geelong
Brian Quarrell CFP®
Chairperson
T: (03) 5222 3055
E: brian.quarrell@
bendigoadelaide.com.au

Gippsland
Rod Lavin CFP®
Chairperson
T: (03) 5176 0618
E: rodneylavin@bigpond.com

Goulburn Valley
John Foster CFP®
Chairperson
T: (03) 5821 4711
E: john.foster@bridges.com.au

South East Melbourne
Scott Brouwer CFP®
Chairperson
T: 0447 538 216
E: scottb@prosperum.com.au

Sunraysia
Stephen Wait CFP®
Chairperson
T: (03) 5022 8118
E: stephenwait@thefarmprotectors.com.au

Queensland

Brisbane
Steven O'Donoghue CFP®
Chairperson
T: 0457 528 114
E: steven.o'donoghue@
suncorp.com.au

Cairns
Contact: FPA Events
T: (02) 9220 4543
E: events@fpa.asn.au

Far North Coast NSW
Shane Hayes CFP®
Chairperson
T: 0411 264 002
E: shane
@dfafinancialplanners.com.au

Gold Coast
Matthew Brown CFP®
Chairperson
T: 0418 747 559
E: matthew.brown@miqprivate.com.au

Mackay
James Wortley CFP®
Chairperson
T: (07) 4957 1600
E: james@efsmackay.com.au

Rockhampton/Central Qld
David French AFP®
Chairperson
T: (07) 4920 4600
E: david_french@capinvest.com.au

Sunshine Coast
Andrew Geddes CFP®
Chairperson
T: 0437 835 609
E: andrew.geddes@miqprivate.com.au

Toowoomba/Darling Downs
Bob Currie CFP®
Chairperson
T: 0420 301 081
E: bob.currie@altitudews.com.au

Townsville
Gavin Runde CFP®
Chairperson
T: 0409 571 855
E: gavin.runde@crowehorwath.com.au

Wide Bay
Louise Jealous-Bennett AFP®
T: (07) 4153 5212
E: louise@c2g.com.au

South Australia

Petra Churcher AFP®
Chairperson
T: (08) 8291 2800
E: pchurcher@ipacsa.com.au

Northern Territory

Susie Erratt CFP®
Chairperson
T: (08) 8950 9300
E: serratt@afsnt.com.au

Western Australia

David Sharpe CFP®
Chairperson
T: (08) 9463 0047
E: david.sharpe@globefp.com.au

Tasmania

Hobart
Todd Kennedy CFP®
Chairperson
T: (03) 6233 0651
E: todd.kennedy@mystate.com.au

To update these details, please advise FPA Events on 02 9220 4543 or events@fpa.asn.au

Member Services:
1300 337 301
Phone: 02 9220 4500
Fax: 02 9220 4582
Email: fpa@fpa.asn.au
Web: www.fpa.asn.au

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Board Committees

Interim Regional Chapter Committee
Matthew Brown CFP®
E: matthew.brown@miqprivate.com.au

Professional Standards and Conduct Committee
Marisa Broome CFP®
E: marisa@wealthadvice.com.au

Audit Committee
Philip Pledge
E: phidpledge@bigpond.com

Governance and Remuneration Committee
Neil Kendall CFP®
E: neil@tupicoffs.com.au

Policy and Regulations Committee
Peter O'Toole CFP®
E: potoole@pandwm.com.au

Professional Designations Committee
Julie Matheson CFP®
E: so95678@bigpond.net.au

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