OFFICIAL PUBLICATION
OF THE FINANCIAL PLANNING
ASSOCIATION OF AUSTRALIA

Financial Planning

Volume 27 Issue 6

July 2015
$15.00

The drivers of trust

Jason Andriessen CFP® on why professionalism in advice matters

THIS ISSUE: International equities / Volatility and retirement / Congress 2015 Taxation of excess NCC / Small business CGT and super

PP100007614

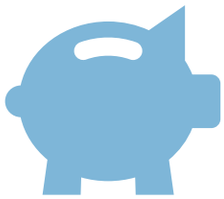
ACTIVATE YOUR FIXED INCOME

Legg Mason Western Asset Australian Bond Trust

TOP QUARTILE PERFORMER[1]

- Low fee - 0.386% ICR versus comparable passive fee of 0.75%[2]
- Size - Trust managed by Western Asset, one of the largest bond managers globally with US$ 459bn funds under management
- Four-way value add strategy: duration, yield curve, allocation and selection to manage interest rate risk and maximise credit opportunities
- Finalist Australian fixed income fund manager of the year 2015 (Money Management)

'Highly Recommended' by Lonsec[3]



Now monthly distributing

	3 yrs	5 yrs	10 yrs
Fund (Net)	7.3	8.0	7.0
Index	6.1	7.3	6.4

Outperformance (%) net of fees[4]

Invest with a global fixed income leader

Available on major platforms including BT Asgard, AMP, IOOF and mFund. Speak to a Legg Mason Client Services Representative today on 1800 679 541 or visit www.leggmason.com.au.

LEGG MASON
GLOBAL ASSET MANAGEMENT

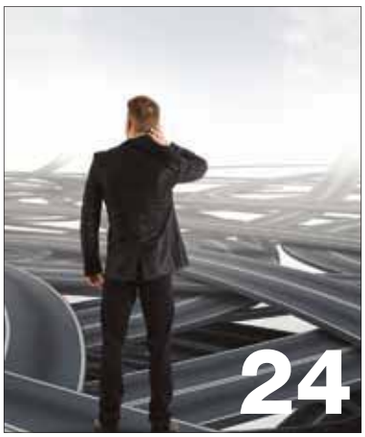
[1] Mercer Survey for Australian Fixed Income Core over 3, 5 and 10 years as at March 2015.
[2] ICR based on investment in Legg Mason Western Asset Australian Bond Trust on $30,000. Passive fee of 0.75% based on comparable generic competior indexed fund on $30,000. This ratio changes at larger amounts over $100,000.

[3]The Lonsec Rating (assigned March 2015) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421445. The Rating is a "class service" (as defined in the Financial Advisers Act 2008 (NZ)) or is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). In New Zealand it must only be provided to "wholesale clients" (as defined in the Financial Advisers Act 2008 (NZ)). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Legg Mason Asset Management Australia product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: http://www.beyond.lonsec.com.au/intelligence/lonsec-ratings. [4]Source: Legg Mason as at April 2015. Index: Bloomberg AusBond Composite Index.

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

Contents

July 2015



Financial Planning magazine is the official publication of the Financial Planning Association of Australia Limited (ABN 62 054 174 453)

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

Advertising: David Robertson
T: 02 8484 0613
M: 0408 242 009
E: david.robertson@cirrusmedia.com.au

CIRRUS MEDIA

MIX Paper from responsible sources FSC® C011808

cab CIRCULATIONS AUDIT BOARD

ABN 80 132 719 861 www.cirrusmedia.com.au

Average Net Distribution Period ending Sep '14
10,537

Professional community at its best

It was great to see record registrations at this year's National Roadshow, our annual visit to each FPA Chapter around the country. To me, this is a reflection that our professional community is more united, and determined, than ever before to secure the future.

We have had extremely positive feedback from members, both in relation to the content of the sessions and the 36 page workbook which provides practical tools to help you implement the learnings from the roadshow. A big thank you to everyone who attended.

Shaping futures

Last month we opened registration for the FPA Professionals Congress, taking place in Brisbane on 18-20 November. The theme this year is Shaping Futures, a theme that could not be more timely or relevant to where we are today.

As a profession, we have the opportunity to shape the future into something truly special. We have the talent and tools to build a better financial future for Australians – and it starts with every individual financial planner providing professional advice today.

This year's Congress will build on the momentum created last year, and focus on the technology and tools to shape the future of your clients, your business and your profession. I'm delighted to announce that our Professionals Congress Chair is FPA Board member Delma Newton CFP®.

In this issue of the magazine, Delma will share her thoughts on what this year's theme means to her. I encourage you to have a read and also visit www.fpacongress.com.au to take advantage of the early bird rate.

Supporting those in need

I am immensely proud of our efforts as a profession to raise money for the Future2 Foundation.

Through Future2, financial planners have a channel to give back to the local community. As professionals, I believe this is an extremely important role we play. With your help last year, Future2 raised $267,000 for disadvantaged young Australians in need.

There are plenty of opportunities to get involved with Future2, such as the annual Future2 Wheel Classic. This year, the ride heads north, leaving Sydney on 10 November and arriving in Brisbane on 18 November for the FPA Professionals Congress.

If you're feeling extra adventurous, you might consider the Future2 Kilimanjaro Challenge.

This inaugural event will see up to 20 adventurers climb the world's highest freestanding mountain – Mount Kilimanjaro – to raise a total of $80,000 for youth in need. The climb will take place 17-28 February 2016.

To read more about these events, go to www.future2foundation.org.au

I hope you enjoy the edition.

Mark Rantall CFP®
Chief Executive Officer

As a profession, we have the opportunity to shape the future into something truly special.

Income layering. For short, medium and long-term peace of mind.

When clients retire, their needs and priorities change. They become more concerned about share market volatility and protecting their capital, and worry whether their money will go the distance.

To address these client concerns, 59% of advisers say they intend to include annuity products for retirement planning strategies this year[1]. More and more, annuities are being used in an income layering strategy to help provide peace of mind when clients go from a regular paycheque to surviving on savings.

Income layering is an increasingly popular strategy that may increase a client's Age Pension entitlements, provide spending money and ensure their basic needs can be met, no matter how markets perform or how long they live.

First, identify required income

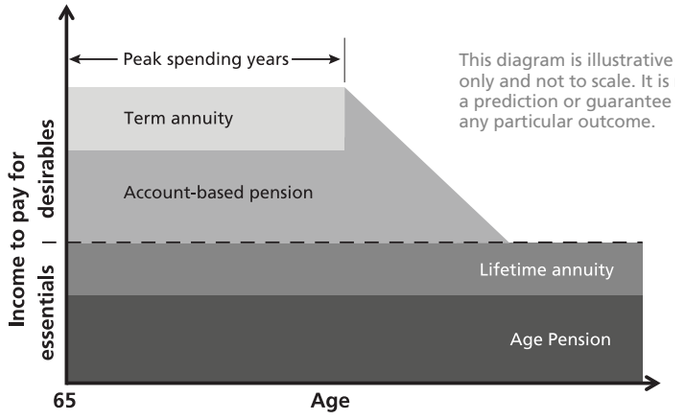
The starting point is to understand the client's retirement goals and lifestyle and to forecast the income they'll need to fund this retirement. Explain how their spending will be grouped into 'essentials', to cover the cost of living for things like food and bills, and 'desirables', to cover holidays, entertainment and so on.

Assess any Centrelink entitlement

Ensure your strategy works in your client's best interest in terms of Age Pension eligibility. These government payments are benchmarked to average male weekly earnings, which generally rise faster than inflation, making them ideal to form the first layer, or 'bedrock' of the portfolio.

Identify gaps between the layers

The Age Pension will be used to pay for day-to-day essentials. However, the Age Pension alone is unlikely to be enough for all of these costs. To help prevent the cost of essentials from becoming a worry, it's time to add an important layer.



This diagram is illustrative only and not to scale. It is not a prediction or guarantee of any particular outcome.

Build in layers

The next layer uses secure income, like a lifetime annuity, to cover the shortfall between the Age Pension and the client's essential costs of living. Challenger's lifetime annuities provide a regular income no matter how long a person may live and can help clients retire knowing that they will have a strong income foundation to help take care of the basics.

To pay for desirables, you can now build in a layer using a product that may provide higher returns over the long term, such as growth investments in an account-based pension. This layer fluctuates with the market and provides the possibility of capital gains so it's used to pay for things the client desires but doesn't necessarily need.

Finally, consider if there are planned expenses, such as holidays, in the peak spending years immediately after the client retires. This can be met with a structured cash flow product like a term annuity.

Introduce your clients to income layering

An income layering strategy can provide real peace of mind when clients go into retirement. To introduce your clients to income layering ask your Challenger BDM to take you through the details or learn more at **www.challenger.com.au/incomelayering**

Always ready to provide support. challenger.com.au/incomelayering

1 Investment Trends December 2014 Retirement Planner Report, based on a survey of 516 financial planners

18323/0615

challenger

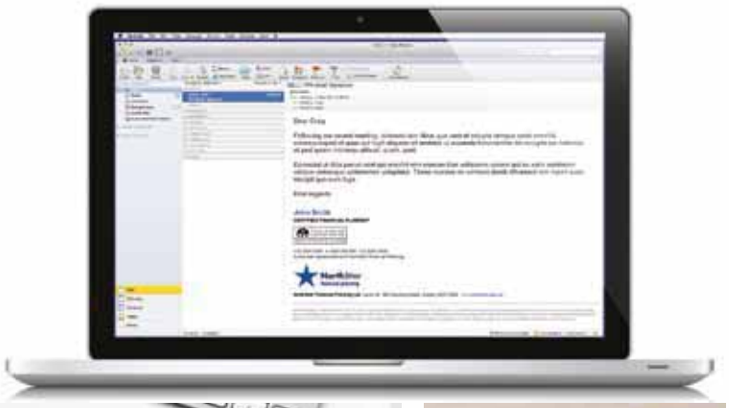
New CFP® Logo lock up

At the recent FPA National Roadshow, the FPA rolled out a brand new Logo lock up for CFP® professionals. Used in the recent advertising campaign, the branding is designed to help CFP® professionals differentiate themselves as 'certified'. CFP professionals can use the new logo on their email signature, business card and client literature.

According to FPA chief executive officer Mark Rantall, the new logo clearly articulates to consumers what the three letters of the CFP designation stand for. Rantall says this new logo distinctly associates CFP practitioners with the provision of 'good advice' and encourages CFPs to adopt it.

Similar to the original CFP logo, there are strict guidelines on how it can be used. Wherever the CFP mark or logo is used, it must always be positioned in close proximity to the name of the CFP professional – and never near or alongside their company name or branding.

The accompanying images illustrate some examples of correct usage, however, a Quick Guide has been produced to help members make the most of the new lock up. The full brand guidelines, logo artwork and advertising campaign toolkit can be found in the FPA Member Centre. All artwork can be submitted for approval at communications@fpa.asn.au



PJC Advocacy Toolkit available

As the Government currently considers the recommendations of the PJC Inquiry, the FPA has developed the PJC Advocacy Toolkit, which is aimed at assisting members in taking the message to politicians about the need to raise the education and professional standards in the financial services industry.

The toolkit provides financial planning professionals with the resources needed to provide MPs with a clear understanding of:

- The importance of increasing education standards across the spectrum of advice providers
- The role of professional standards versus legislated requirements
- The importance of implementing changes by utilising existing mechanisms and appropriate expertise, and
- The importance of financial planning to the national interest.

The toolkit includes a range of practical resources, such as letters and factsheets that members can use when interacting with their local Member of Parliament.

The toolkit includes information on:

- How to contact your local MP
- Parliamentary sitting dates
- Sample meeting request letter
- Sample meeting request email
- What to give your MP when you meet
- Tips on how to engage with your local MP.

The PJC Advocacy Toolkit is available now and can be accessed online in the FPA Member Centre.

Congress early bird open

Registrations for this year's FPA Professionals Congress in Brisbane (18-20 November 2015) are now open, with 'early bird' registration closing on 31 August.

The theme of this year's Congress is 'Shaping Futures'.

As the financial planning profession transforms, this year's Congress will focus on how the FPA and its members are playing a critical role in this transformation through its combined commitment to the highest professional standards.

But importantly, the Congress will also focus on the role planners play in shaping the futures of their clients by providing them with the professional expertise and empathy needed to enable them to realise their financial and lifestyle dreams, and the peace of mind that comes with financial security.

This year's Congress is about ways to shape the future in a powerful and positive way. The 2015 program will include inspiring speakers, opportunities to learn and network.

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

Planners campaign for a positive message

The 'Positivity for Planners' campaign is one month into its 60 day period to raise $100,000 through its social media crowd funding initiative.

'Positivity for Planners' is a campaign organised by planners to combat the negativity surrounding the financial planning profession in the media. The campaign aims to produce professional non-branded, non-aligned and non-product focused case study videos, animated videos, podcasts, articles and blogs that showcase to consumers the positive side of what planners do, why they do it, and the outcomes they achieve for their clients.

"We don't deny the problems raised in the media as a result of the tiny percentage of bad planners, but we believe this coverage is out of balance and fails to recognise the overwhelmingly positive benefits that financial planners make to the lives of their clients," said Melinda Houghton AFP® – chair of the Positivity for Planners committee.

"This campaign, which will be privately funded from within the financial planning community, will focus on positive messages and positive client stories. It's an education campaign from clients, for clients."

The campaign will produce a suite of resources available for planners to use with their clients and the wider consumer community. Content will include positive stories that focus on strategies and outcomes for clients covering a range of areas planners work in, including retirement, accumulation, insurance and debt reduction.

"There are thousands of happy financial planning clients out there who we have all helped," said Houghton. "It's time for their stories to be told. The profession is not just about fees, numbers and paperwork. This profession improves people's lives, reduces stress, helps the economy and reduces the reliance on Government support. Our profession needs to be showcased for the good it provides; for our clients and for the country."

Houghton said it was time the entire profession came together collectively to fight the negative messages in the media with positive client stories.

"It's going to be harder for some groups, like the media, to focus on the minority of bad outcomes in the financial world, when the good stories are being told more regularly. It's going to be harder for the naysayers to bring us down when we all band together regardless of licensee, alignment or what type of advice you provide."

Campaign committee member Daryl La'Brooy CFP® said the positive content supplied on the campaign's website will complement the excellent work the FPA is currently doing to raise awareness of CFP® practitioners and the benefits of seeking professional financial advice.

He added the best way for planners to become involved in the campaign was to tell people about it and use their social media networks to spread the word.

According to Houghton, by raising at least $100,000 through crowd funding, the funds will be used to help pay for preparing the content, paying for paid banner advertising on social media applications like LinkedIn and Facebook, as well as running the campaign's website and other logistics. All funds raised will be used for the campaign, and records will be kept of all donations.

A number of FPA members have already pledged their support for the 'Positivity for Planners' campaign. Only planners supporting the campaign will be able to access the content.

Crowd funding for the campaign closes on July 30.

For more information on the campaign or to pledge your donation, go to www.positivityforplanners.com.au or email positivityforplanners@gmail.com

FPA streamlines CPD accreditation

From 1 July 2015, there will be two important changes to the FPA CPD Policy, which comes into effect at the start of the 2015-18 CPD triennium.

Hourly accreditation

From 1 July, the FPA's CPD points system, where points are allocated to a percentage of time a member is engaged in learning, will change to a system based on hours. The allocation of CPD hours will be based on an hour-for-hour basis, in increments of 15 minutes. Additional CPD hours for active learning will no longer apply.

For example, where 30 minutes of CPD reading was allocated 0.5 CPD points, this will now be allocated as 30 CPD minutes; and where a CPD workshop may have received 2.5 CPD points, this will now be allocated 2.5 hours or 150 CPD minutes.

"This is a straightforward change, which we believe will bring consistency by aligning the FPA's CPD accreditation to the rest of the industry," FPA CPD manager, Chris Pinto said. "From 1 July, FPA members can expect to receive their CPD certificates in hours, not points."

Academic accreditation

The second change relates to automatic CPD accreditation of Australian Qualifications Framework (AQF) Level 7 tertiary courses – Bachelor Degrees.

According to Pinto, there has been a large push by planners for FPA CPD accreditation of Bachelor and Masters degrees. But in order for this to happen, the onus has traditionally been on tertiary institutions to approach the FPA to have their courses accredited for CPD by the FPA.

However, from 1 July, all relevant AQF Level 7 and above degrees will automatically qualify for FPA accredited CPD hours. The FPA will recognise 20 CPD hours per subject that has been successfully completed and passed.

However, it will still be the responsibility of planners to keep track of their studies by logging all their completed subjects into their CPD records.

Pinto confirmed there will be no changes required to the number of CPD hours required per triennium, which is currently 120 CPD hours for CFP® practitioners and 90 CPD hours for AFP® practitioners.

CPD audits

In addition, the FPA will now conduct CPD audits twice a year. According to Pinto, in 2014 the FPA decided to increase the CPD audit frequency to twice a year, in order to better help practitioner members keep on track with their professional development.

2015 FPA National Roadshow finishes

From 27 April to 23 June, the FPA National Roadshow visited 33 locations across all 30 Chapters, in partnership with Challenger and Zenith Investment Partners.

The FPA was pleased to see approximately 3,000 delegates attend these events, which provided them with a unique opportunity to gain updates on FoFA, the FSI Report and the PJC Inquiry. Attendees were also provided with opportunities to learn about new advice opportunities in the retirement incomes market.

The FPA thanks all members who supported this year's National Roadshow and for their ongoing support of local Chapter events.

Approximately 3,000 delegates attended this year's FPA National Roadshow.

UNSW Business School Postgraduate Awards

The FPA was proud to award the UNSW FPA prize for the best performance in Financial Planning, Advice and Ethics to Fatma Mohamed Ahmed Al-Bulushi, at the UNSW Business School – Postgraduate Awards on June 3.

Sydney Chapter committee member, Tania Mawbey was on hand to present the award to the winner. Congratulations to Fatma Mohamed Ahmed Al-Bulushi.

Tania Mawbey with Fatma Mohamed Ahmed Al-Bulushi.

Super on bumpy year-end ride

Rising investment markets have helped produce a strong return for super fund mambers, with the median Balanced option providing a 1 per cent gain during the month of May. However, this gain comes ahead of a forecast decline in June.

"Volatile investment markets are creating a bumpy ride for the end of the financial year, although we still expect most funds to nudge a double-digit return at June 30, for the third year in a row," said SuperRatings founder, Jeff Bresnahan.

The May result takes the year-to-date performance to 11.7 per cent. However, in the first half of June, Balanced funds are predicted to be down almost 1.4 per cent.

International shares provided the biggest boost to returns during May, with the median International Shares option up 2.6 per cent for the month. The median Australian Shares option was up 0.7 per cent, while Fixed Interest returns were flat.

On longer term measures, Bresnahan says super funds continue to exceed a common CPI plus 3 per cent objective, with the annual return for the median Balanced fund currently at 12.1 per cent and a five year performance of 9.6 per cent per annum.

The FPA congratulates the following member who has been admitted as a CERTIFIED FINANCIAL PLANNER® practitioner.

NSW

Joanne Murray CFP®
Fenton and Associates

Upcoming Chapter events

6 July
Geelong: Member Lunch

8 July
Bendigo: Member Lunch

16 July
Melbourne: Women in Financial Planning Lunch

31 July
Brisbane: Future2 Annual Charity Golf Day

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

Thank you to our Chapter supporters

AIA
ANZ
BOQ Specialist Bank
BT Investment Management
Challenger
Franklin Templeton
Hays
IOOF
Leveraged Equities
Lifeplan Funds Management
Magellan Financial Group
MLC
netwealth
T. Rowe Price International
Topdocs Legal
The West
Vanguard
Zenith Investment Partners

Client engagement key to Opt-in

Q: From July 1, are you ready for Opt-in?

Daryl La'Brooy CFP®

Financial Adviser,
Hillross Financial Services

Licensee: Hillross Financial Services

Whether we like it or not, regulation is part of the fabric of financial planning these days. So all advisers need to be ready now for Opt-in.

Our office geared up for it during 2013, so we already have systems in place.

The fundamental premise for succeeding in the new environment is to have a great value proposition or client offering, and then serve those who are prepared to pay for what you do. If people see value, then they will pay and the red-tape that is Opt-in will just be another bit of paper they need to sign.

At the time of writing and before Opt-in comes in, a long-standing client challenged the fees he was paying and wanted to discontinue payment. I reminded him of all the things we do for him and why having us as a resource was really critical going forward. I also told him what our daily fee was in comparison to all the other expenses he incurs. I mentioned the fact that we had built up his wealth over the last 20 years and we would be there to protect it in retirement when he had to rely on it to meet his expenses.

After he read my email, the client said he was glad I was acting in his best interests and he would continue with the current fee-for-service arrangement.

As long as Australians are under-advised, under-funded for retirement, under-insured and over-borrowed, as advisers, we have the tools and expertise to help them overcome these and the other myriad of problems people are facing daily.

Given what consumers are facing today, having to justify your fees shouldn't be an issue, just as long as you are delivering what you promised.

All advisers should ask their prospective clients for their expectations of them prior to taking them on as clients. That way, you can deliver on their expectations.

Having a process in your office for regular contact of existing clients is important, as well as delivering on the wider issues that clients face, such as estate planning, general insurance, debt and so on.

This level of client engagement is vital and will help ensure that clients will continue to pay your fees.

Shaping futures

our own
our clients
our profession

The theme of this year's FPA Professionals Congress is 'Shaping Futures'. Financial Planning magazine asks Delma Newton CFP®, the chair of the Congress organising committee, about the theming of this year's Congress and the ways in which planners shape the future of their clients, themselves and the profession.

The profession is in the hands of planners. We are empowered with the responsibility and opportunity to shape the future of the profession.

FP: Why was the theme 'Shaping Futures' chosen for this year's Congress?

Delma Newton (DN): Change is a constant in financial planning, be it our clients' changing needs, the change in our businesses or the change to regulation.

We are at the forefront of helping to shape this change. The profession is in the hands of planners. We are empowered with the responsibility and opportunity to shape the future of the profession. Through shared values, our professional manner and our client success stories, we will continue to positively change the perception of the profession.

As planners, we help our clients shape their futures. And the FPA is shaping the profession by leading the way on professional and education standards, not only for its members but for all planners.

Together, the FPA, member practitioners and our clients are shaping futures – the future of the profession, our businesses and the lives of our clients.

FP: What does 'Shaping Futures' mean to you?

DN: It means our destiny is in our hands; the future is ours to behold. We are in such a privileged position as financial planners to be asked by clients to help them build their financial future and we should never forget this.

Technological change is upon us. For many, this is a scary proposition. However, I see it as being a very exciting time. To be able to embrace this technology to further build our businesses, which will enable us to do our job better and in an easier manner, is something to be embraced.

Australia's changing demographics and its ageing population also bring its own challenges and great opportunities for our profession. We are at the start of this change and going forward, we have a great opportunity to shape the discussion around the future impact of longevity on portfolios and the provision of income streams.

And of course, we must also remember to shape our own futures. We need to be able to look after our own health and wellbeing, and not let the stresses of our daily lives impede us from helping others.

The future is there for us to shape.

FP: As a practitioner, how are you shaping the future in a powerful and positive way?

DN: Clients often come to us with a partial vision and are not quite sure what it is that they actually want to achieve. By having open and frank discussions with my clients, we work out what's really important to them, what their true goals and core values are, and what's really important to them.

This is often very empowering for the client. Quite often they come to realise that what they are actually trying to achieve is something very different to what they thought it was going to be when they first came to see us. By the end of the process, it's all about them and it's not about someone else's preconceived idea on what future financial security should look like.

The other thing that I really enjoy

doing is sharing my love of technology with other planners. This includes showing them how to implement different technology and processes into their practices to make their work life a lot easier.

FP: Why should FPA members attend this year's Congress?

DN: By attending this year's Congress, our members will be able to stay ahead of the pack in relation to one of the constants of life – change.

Whether it's around the future of technology, the future of regulation, the future of financial strategy and the art of client communication, staying at the forefront of these issues will mean our members are better equipped to shape not only their own futures, but the futures of our clients and the future of our profession as a whole.

The Congress will also give members a great opportunity to network with old acquaintances and to form new friendships with colleagues from around Australia and indeed, from around the world.

FP: What are the three key things delegates will take away from this year's Congress?

DN: Members will come away from this year's Congress with:

1. An insight into the future in relation to technology and business ideas.
2. Practical tools they can immediately implement into their own businesses and lives, which will enable them to better engage with their clients and to look after their own health and wellbeing.
3. Up-to-date information around the core areas relating to financial planning strategies that can be used to help guide their clients towards their future goals.

Congress registration now open

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

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

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

The Congress ticket entitles delegates to the following:

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

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

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

In order to be trusted, you need to be worthy of trust. And the pathway to being trustworthy is professionalism.

Name:
Jason Andriessen CFP®

Age: 41

Qualifications: Master of Commerce, Bachelor of Business (Marketing), Diploma of Financial Planning

Position: General Manager Marketing, Product and Advice

Practice: State Super Financial Services

Licensee: State Super Financial Services

Years as a financial planner: 18

CFP® designation: 2000

The drivers of trust

Trust is a word Jason Andriessen CFP® uses a lot when talking about the professionalisation of the industry. Jayson Forrest caught up with him to discuss why professionalism in advice matters.

The first thing that strikes you when meeting Jason Andriessen is not his 'designer beard' but his very easy and comforting manner.

Scratch that surface a little deeper and you will uncover a CFP® practitioner who not only heads dealer services to the advice network of State Super Financial Services' (SSFS) NSW, WA and Australian Public Sector employees and their families – all 60,000 of them – but a practitioner who is absolutely committed to the professionalisation of the financial planning industry. His enthusiasm is quite infectious.

"Professionalism in advice is something that should matter to us all," Jason says. "Advice changes lives; it improves lives. When advice is properly accessed, it enhances today's decisions with beneficial financial consequences. Advice provides extraordinary benefits."

But Jason admits that the current crisis of trust in planners is one of the reasons why advice isn't accessed as much as it should be. "So, if we believe that advice is beneficial and changes the lives of people, we need to do everything we can to make it more accessible. And that means repairing the loss of trust and confidence in the profession that has happened in the past 18 months or so."

Jason specifically refers to the recent failure in advice processes within some of the major advice groups.

But does that mean trust comes through professionalism?

"That's right," he replies. "In order to be trusted, you need to be worthy of trust. And the pathway to being trustworthy is professionalism. That's why this issue of trust is so important to me."

Quality advice

One of the foundations on which trust is built is quality advice, and it's this foundation that Jason is particularly passionate about.

"When it comes to quality advice, we're on a journey," he says. "Quality advice is more than compliance. It's more than a process. Quality advice is about outcomes. It's about meeting all the legal requirements. It's appropriate and it's anchored in understanding the client and their problems. Importantly, quality advice is always in the best interests of the client."

He believes that the delivery of quality advice doesn't always have to be comprehensive, as long as the proper diagnosis of the client's situation and the right questions are asked, in order to uncover the real issues of the client.

"And quality advice is also about having the right assumptions in place in the planning process," he says. "These assumptions are just as important as ensuring the client is along on the journey. The client needs to understand the decisions they make and the potential outcomes of these decisions."

Jason adds that at SSFS, he often has conversations with his colleagues about alternative strategies for clients, which he believes is a natural outcome of delivering high quality advice.

"If you've had the right conversations with the client and brought them along on the journey, you will have uncovered a number of alternative paths for your clients, which you may adopt or discard for various reasons."

However, Jason is quick to add that failing to implement quality advice is an opportunity lost, both for the planner and their client.

"You often have a conversation around strategic financial planning advice, which is separated from

Continued on p16

implementation solutions. But for me, the most important aspect is that the advice is actually implemented. If the advice is not implemented, then it's useless. It becomes an unfulfilled potential."

Interestingly, SSFS does not use paraplanners in the advice process, meaning the 160 planners employed at the organisation do their own strategies and plans.

"My experience with paraplanning is there are lots of 'to-ing' and 'fro-ing' and 'rework'. All of our planners do their own strategic financial planning for clients. When we employ financial planners from external firms, there is often a considerable learning curve in technical capability because they have been reliant on paraplanners to refine strategies and be across the technical issues.

"So, from our viewpoint, paraplanners are definitely not necessary in our business because we have such a successful client-inclusive approach to financial planning."

SSFS is able to do this by implementing controlled internal advice processes. As part of these processes, Jason refers back to the word 'trust'.

"Two of the key factors in trust is 'consistency' and 'predictability'," he says. "So at SSFS, all our planners use the same tools within the advice process. They have the same compliance manual; the same work practises; they use the same software; the same modelling assumptions; the same risk profiling questions; and have the same SOA templates. And we have frameworks around how our planners build portfolios."

While Jason adds that each planner has ultimate judgement and subjectivity with each client plan, this subjectivity still needs to be within the required framework set by SSFS. However, he emphasises that the framework and processes are flexible enough to accommodate a client's individual situation.

It's through these efficient processes and frameworks that Jason believes SSFS's planners can service the organisation's clients, which at 60,000, is steadily growing.

To complement its traditional business offering, which includes the provision of comprehensive advice and ongoing client reviews, a few years back, SSFS introduced scaled advice over the phone.

And as part of its current transformation, SSFS has also developed both face-to-face and telephone scaled advice offerings, and what it terms 'event advice', where it provides options around specific point-of-time events, such as marriages or a new addition to the family.

Planner professionalism

With so much talk about professionalism and quality advice, Jason is very clear on what a professional planner should look like.

For Jason, a professional planner has the confidence to behave well and ethically. A professional planner is also appropriately educated, has relevant experience, has a long-term perspective, is career-minded, and accountable and responsible for their actions.

As chair of the Approved Product List (APL) committee at SSFS, Jason is well-schooled in the importance of accountability and responsibility.

"Today, there is too much 'buck passing'. Over the past 20 years, there have been too many occasions where I've seen others in the value chain blaming each other for things such as product or advice failure. In such instances, it's either my manager's fault, or my KPIs, or the research house, or the licensee with the APL.

"We all need to lift our game," Jason says. "Ultimately, it's the financial planner who needs to take responsibility for being thorough and having a complete understanding of the advice provided."

This leads Jason to question the number of 'bad apples' remaining in the profession and why a community of licensees would rationally allow planners, who have misbehaved and broken codes of ethics and professional conduct, to join them.

"Hopefully, the ASIC Register will pick up these types of planners but it really shouldn't come to that," Jason says. "Licensees need to take a much stronger position around reference checking."

SSFS has taken a strong stance on reference checking. Without exception, all planners transferring from other businesses to SSFS have a reference check of their past five years. And all referees need to be of a high quality.

But how does SSFS get around reference checking planners who are currently employed? Surely this jeopardises employment with their current licensee?

"Not at all," says Jason. "We simply provide them a 'letter of offer of employment' with us, subject to an adequate reference from their current manager. This effectively weeds out those planners who genuinely want to join us from those who are just shopping around."

Jason says the quality of SSFS's business is about getting the right people on board, who have the right level of education, are prepared to be accountable and are confident in what they are doing. They need to buy-in to the culture of the organisation. "That's the future of our business," he says.

Internal standards

At SSFS, Jason is responsible for the advice processes and support of quality advice to planners. With SSFS's strong emphasis on professionalism and quality advice, Jason is tough in his approach to raising the standards of advice from within the organisation.

"First of all, we are committed to professionalism," Jason replies. "There is the issue of competence, which is really a function of education and experience. We have 160 employed financial planners, of which 65 per cent of them are already CFP® practitioners. We are working hard with the other 35 per cent to get their CFP® certification. We require all of our planners to be members of the FPA."

Not only does SSFS cover the FPA membership costs for its planners, it is also committed to financially assisting its planners through the CFP® Certification Program, which it views as being the highest professional designation for planners.

Jason attributes the decision by SSFS to align its planners to membership of the FPA, to the strong stance the FPA has taken on professionalism.

"The April 2011 vote to change the FPA's membership structure, by removing the large Principal category to become an individual practitioner focused association, was very brave and the right thing to do.

"The profession needs to delink from product providers

“My vision for the profession is we become a community that holds each other accountable for our actions. I think we’re on the right pathway towards achieving that.”

and grow on its own. This is happening under the FPA, which has implemented enforceable standards of conduct.

“We are seeing a community of professionals develop who hold each other and their employers accountable to high ethical and professional standards.”

Jason adds the FPA is the only credible professional body. He ascribes this to its clear direction on education and higher professional standards, its stance on separating product from advice, its Code of Ethics and Professional Practice, and the globally recognised CFP® mark. “And the fact we simply like what the FPA stands for,” he says.

Opportunities and threats

Jason is adamant planners can overcome the damage caused by the recent failure in advice by some of Australia’s largest financial planning groups, which has tarnished the financial planning profession.

“When it comes to trust, I think the industry is at crisis point. The outcomes that have led to this are terrible but it’s a good thing that we have openly recognised those failures and action is now being taken.

“The biggest threat to the profession is that we hold ourselves back by not taking a long-term perspective. We’re not brave enough,” he says.

It’s a strong comment but one that he holds firm to.

“If we let short-termism cloud our judgement, then we’re destined to make the wrong decisions again. This is why it’s so important that growth of the profession is clearly separated from the product side of the industry. Product manufacturers will always be focused on the short-term; the shareholders, share price and profit. But professionals need to be focused on the long-term best interests of their clients.”

However, when it comes to opportunities for the profession, he remains upbeat.

“It’s clear there will be higher education requirements. The opportunity is there for all planners to further enhance their own education standards, so they are best able to meet the challenges of the future.”

Jason believes one of these challenges will inevitably include a registration exam. “So, the opportunity is to engage with education providers and enhance your competency and preparation for that.”

He also points to the digital space as a complementary opportunity for the profession; one which SSFS seeks to take advantage off. It intends to build a digital advice offering, which it views as a supplement to face-to-face advice. Jason adds that he doesn’t see any conflict with established channels by leveraging into the digital space.

So, is he talking robo-advice?

“No, not at all,” he says. “Robo-advice is an end-to-end advice tool. In the US, it’s really only used by sophisticated investors as an online tool for portfolio management.

“Instead, what I’m talking about is an online offering, allowing people to access content, tools and calculators that are interesting. It’s an education offering. And when things get complex or people are ready to make decisions, then there is an escalation point, whether this is over the phone or face-to-face with a planner. Our research tells us most people still want face-to-face contact with a planner when it’s an important issue.

“We’re only just starting out on this digital journey,” he says. “So, watch this space.”

From a licensee perspective, when it comes to professionalism and the digitalisation of its business, it looks like SSFS has got it all together. But it’s an assertion that Jason backs away from.

“We absolutely don’t,” Jason says. “We’re on a journey. When it comes to quality advice, there’s stuff that we’re learning every day. My vision for the profession is we become a community that holds each other accountable for our actions. I think we’re on the right pathway towards achieving that.”

State Super Financial Services is a Professional Partner of the FPA.

For more information on becoming an FPA Professional Partner, please contact Member Services on 02 9220 4500 or practice@fpa.asn.au

Referencing the right way

Appropriately referencing the ideas and theories of others in SOAs and file notes underpins the basic requirements of the CFP® Certification Program, as well as helps safeguard the professional integrity of CFP® practitioners.

The CFP® Certification Program offers more than a globally recognised designation; it provides a key differentiator between a job and a professional career.

Importantly, underpinning the CFP designation is a degree where academic rigor has ensured a high standard of research capability and application to solve problems.

Solving problems go hand-in-hand with being a CFP professional. Asking questions is also another important role. For example, has this problem been solved before, and by whom? Someone may have researched and solved the problem before. If so, they deserve acknowledgment using the academic rigor of referencing. Otherwise, it could be seen as your own work, which is a form of plagiarism, and worse, it becomes problematic when defending your recommendations in front of a panel of experts.

Whether you're a student of the CFP Certification Program or a qualified CFP practitioner, it is expected that your work demonstrates your ability to research and reference where solutions to problems can be found. For example, one problem solved by most CFP professionals is investment diversification. But where does this idea or theory come from and what is the source?

In a discussion paper written by Vitali Alexeev of the University of Tasmania and Francis Tapon of the University of Guelph, they provided evidence from five developed markets on how many stocks are enough to achieve investment diversification[1]. This paper, along with others, can provide a defensible position in a Statement of Advice (SOA) or files notes. Otherwise, it could be seen as your idea to recommend investment diversification, and if it fails for whatever reason, as we have seen in the GFC, how will you defend it?

One of the best forms of referencing is the Harvard system[2]. It's already an inbuilt function of Microsoft Word. Just click on the References tab and start using the 'Insert Citation' button. A prompt will come up to help you decide which type of book, website or journal is the source. You may also use footnotes to reference sources used in forming a recommendation. A bibliography is automatically

Student support

To enable students to successfully complete the CFP® Certification Program, the FPA offers a range of tools, resources and support mechanisms to assist students.

Resources not only include tips on how to study, write assignments and prepare for exams, but also how to properly attribute and source material used in SOAs and assignments.

Other resources available include:

- Course material;
- Access to data and resources through a university facilitated subject room;
- Self-supported study groups;
- Subject matter experts to assist students in a chat room;
- Access to CFP professionals via an online program; and
- A Deakin Prime helpdesk.

FPA Head of Professional Designations, Howard Cook says these tools and resources are invaluable in assisting students with their studies. "The program has been designed to be flexible, which enable students to learn at their own pace," he says.

According to Cook, there are two webinars per subject each semester to assist students, and the FPA is currently trialing a mentoring program that connects students with CFP practitioners.

"The student portal is another popular resource," Cook says. "This subject room allows students to post their questions which are answered by CFP professionals."

Cook adds that students can also access trial examination papers in the subject room, which assists them in their exam preparation.

"There are many resources and tools available for students," Cook says. "The FPA is here to assist all its students successfully complete each unit of the CFP Certification Program, with the aim of helping them to achieve the profession's highest designation."

created listing all sources used in the SOA or file notes.

When good ideas and theories for recommendations come from previous work of qualified sources, they must be referenced. Just relying on the media or a product provider's presentation, who is self-interested in offering a range of products for 'diversification', is not good enough for CFP professionals and students of the CFP Certification Program.

There are many examples in FOS determinations from the GFC which have found against a recommendation to diversify into so-called growth or balanced investments. What do these terms really mean, anyway? Where is the credible source and reference to support such recommendations?

Unfortunately, in most cases, the recommendations appear as the sole work of the adviser. It was their idea to diversify. It was their idea to recommend margin lending. They offered no credible source or reference to previous work of qualified sources. So, if it wasn't their idea in the first instance, then it can be regarded as plagiarism for not acknowledging the source.

In the CFP Certification Program, plagiarism is unacceptable and will result in automatic failure of the unit. All ideas and theories must be referenced to support the student's ability to research and find solutions to problems. Source referencing is also recommended for all CFP professionals. As Issac Newton said in 1676: "If I have seen further, it is by standing on the shoulders of giants."[3] It's time to use the shoulders of others who have gone before us, reference their work and build on it to find solutions for the problems of our clients.

Julie Matheson CFP® is chair of the FPA Professional Designations Committee.

Footnotes

1. Alexeev & Francis, 2012.
2. University of Westminster, 2013.
3. University of Westminster, 2013.

Bibliography

Alexeev, V., & Francis, T. (2012). Equity Portfolio Diversification: How Many Stocks are Enough? Evidence from Five Developed Markets. Retrieved April 26, 2015, from UTAS, Tasmanian School of Business & Economics: www.utas.edu.au/__data/assets/pdf_file/0020/436511/2013-16_Alexeev-and-Tapon-Equity-portfolio-diversification.pdf

University of Westminster. (2013, June 16). How to reference your work. Retrieved April 26, 2015, from YouTube: www.youtube.com/watch?v=jG0Rgwcw8k8

The CFP® Certification Program offers more than a globally recognised designation; it provides a key differentiator between a job and a professional career.

Get it right: reference sources

The chair of the FPA Professional Designations Committee, Julie Matheson CFP®, is a clear advocate of ongoing education, and views the CFP Certification Program as a crucial part of the framework of being able to refer to yourself as being a financial planning professional.

However, one of her main concerns for students of the program, which is just as relevant to all practitioners, is to correctly source and reference any material used in the makeup of their recommendations, particularly in a Statement of Advice (SOA).

"When you make a recommendation which is not based on your own original thought, it's best practice to correctly reference where you are getting your information from or what you are basing your strategies or recommendations on," Matheson says. "Unfortunately, some people still don't understand this.

"You need to be able to back up and support your recommendations. And by properly attributing and sourcing the information used in your recommendations, this will help you defend your recommendations if ever called upon to do so."

Matheson says the CFP 1 unit (FPA Professionalism) is one of the best kept secrets in financial planning, as it ties together the legal and professional requirements of financial planning.

"This is an excellent unit for any planner, no matter how experienced they may be. Education should never stop and I believe it's fundamental to anybody aspiring to call themself a professional."

Indeed, the FPA actively encourages students of the CFP® Certification Program to participate in study groups, as a means of helping them through the course requirements. However, Matheson issues a stern warning against plagiarising the work of others, and draws a clear line between collaboration and plagiarism.

"There is nothing wrong with collaboration. Having more than one mind to help solve a problem is a good thing. Putting the client's best interest first and finding the best solution for them is what financial planning is all about.

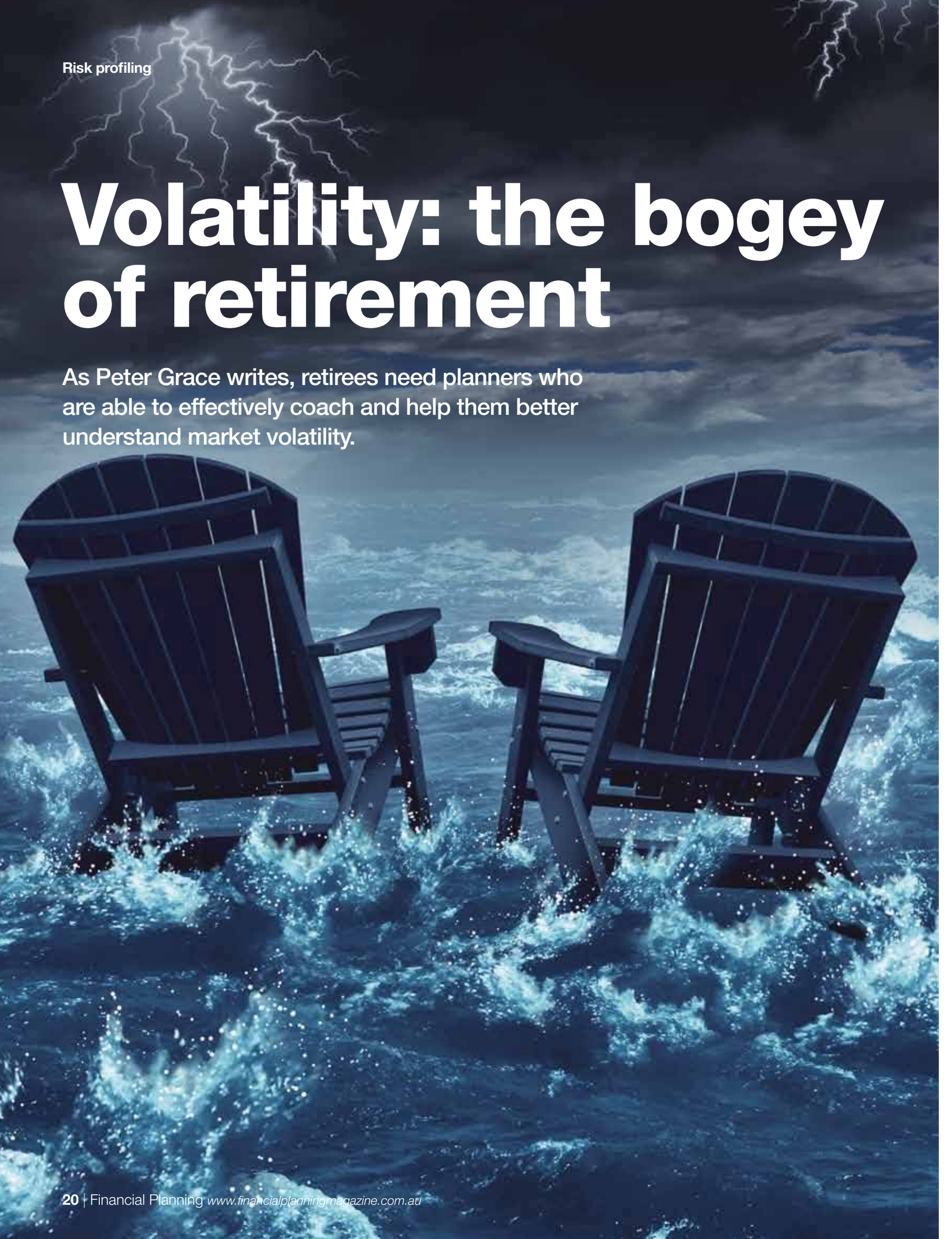
"But in contrast, plagiarism is taking somebody else's piece of work or intellectual property and making it sound like it's your idea. This is something our profession will not tolerate."

Matheson says there is an easy way to avoid plagiarism – whether it's part of your recommendations or strategy in the CFP assessment or in client SOAs – and that is to correctly reference and source the information used to come up with your recommendations and strategy.

"Referencing your sources is actually part of the FPA's Code of Professional Practice," Matheson says. "A simple bibliography at the back of an SOA that appropriately references the advice you are giving, is not only the right thing to do, but will also help you to defend your advice and recommendations if you're ever called upon to do so."

Volatility: the bogey of retirement

As Peter Grace writes, retirees need planners who are able to effectively coach and help them better understand market volatility.



It's time to challenge the conventional wisdom on risk profiling for retirees. Superannuation and account-based pensions can address all the needs of retirees if they get good advice and coaching along the way. First, let's set out a few basics to set the scene for my argument.

What is super for?

Superannuation is intended to provide an income in retirement for the retiree or his/her financial dependents. It's not intended to be a tax-effective wealth creation scheme for estate planning.

An account-based pension must pay out a minimum amount each year (from 4 per cent to 14 per cent). There is an inbuilt assumption here that the retiree's superannuation capital will reduce over time.

Even if the retiree does not need to draw this income from their account-based pension, it still needs to be paid out of the tax advantaged superannuation environment. For many retirees holding funds outside super, this will still be tax-effective because of the Senior Australians Tax Offset.

Statements in the media saying retirees can only earn 3 per cent on their capital and someone with $1 million in super must live on $30,000, makes no sense. These commentators need to revise their understanding of the sole purpose test. Thankfully, Government ministers have made the same point.

What risks do retirees face?

The top four risks retirees face are probably: longevity, inflation, lack of flexibility and volatility.

We can agree that to address longevity and inflation, the retiree will need to invest in growth assets. An account-based pension provides lots of flexibility and avoids the risk of being locked into an annuity backed by conservative assets.

So, the bogey is volatility. You can't have growth assets without volatility and (though some planners may argue) complex products with high fees are still not devoid of risk.

The retirement 'mantra'

The media and supposed experts continually encourage retires to 'de-risk' their portfolios as they near retirement. Super funds with lifecycle portfolios even automate the process. Often it's said 'invest according to your risk profile', as if a risk profile is an objective and reliable measure on which to base investment decisions.

Remember, 'risk profile' is not mentioned in the Corporations Act. Even RG 175 'Financial product advisers – conduct and disclosure', which was revised in 2013, does not mention it. It appears to me that risk profile is a creation of the financial planning industry to prove that risk had been discussed with the client and to systemise the planning process. Although many planners deny it, a single risk profile often leads to a recommended asset allocation, whether it's appropriate for the client or not.

What are a retiree's needs?

The most immediate need for a retiree with an account-based pension is to have liquid assets (cash) to pay the pension. If you constructed a risk profile for that investment alone, it would come out 'very conservative' – no risk at all.

This flows on to the second need, which is to never be forced to sell down long-term assets at an inappropriate time. Logically this suggests there must be a fairly conservative buffer that protects the need to access the long-term investments.

The third need is growth to manage the longevity and inflation risks.

If we must use the term risk profile, these needs suggest a retiree has three risk profiles – one for the very short-term, one for the medium-term and one for the long-term.

How should a retiree invest?

Most planners are familiar with the 'three bucket' approach. Many SMSFs use this system, at least one large APRA fund has implemented it as a default option for retirees using their account-based pension, and it can be created using many retail funds. In principle it works as follows:

- Bucket 1 is a cash account and holds at least one year's pension needs. The cash account receives distributions and dividends from buckets 2 and 3.
- Bucket 2 is a stable account invested in fixed interest assets holding three years' pension needs.
- Bucket 3 is a growth account holding a diversified portfolio of growth assets. The cash and stable accounts mean that the pension income can always be paid without having to sell down growth assets at an inappropriate time.

The planner meets with the client at least annually to review the three buckets. The key questions will be:

- What income do you need next year?; and
- Do you need any lump sums?

Then the three buckets can be rebalanced. A more conservative client might like to hold more than three years worth of pension in the stable account. A more aggressive client might want to use geared share funds or instalment warrants to boost returns in the growth account.

What asset allocation is appropriate?

It depends on the client and how confident they are in the planner's recommendations.

For example: A retiree client with $500,000 drawing 5 per cent from an account-based pension could have $25,000 in cash, $75,000 in stable funds and $400,000 in growth assets. This is 80 per cent growth assets. If the client is uneasy with being as aggressive as this, then adjust the cash and stable buckets to build more protection.

What investments should a retiree avoid?

This system works best when the various investments make distributions, so unitised portfolios that reinvest distributions are not suitable. The stable account must be liquid, so there should be very low risk of funds being frozen.

To me, real risk is when an investment can fail completely or lose value permanently. Retirees should be risk averse to speculative investments or ones they don't understand. A planner must be able to explain to a retiree how an investment works and what it can be expected to perform. If the retiree 'doesn't get it', then it's not suitable.

What about volatility?

Buckets 1 and 2 will have sufficient liquid assets to pay the pension for many years if the retiree receives their distributions from all the investments.

Continued on p22

"Who is going to stand up and promote a different approach from the tired old risk profile mantra?"

Peter Grace

It is easy to say that volatility doesn't matter but it will matter to financially unsophisticated and un-coached retirees. This is a key role of the planner – to ensure the client knows what to expect at the start and to have those expectations met along the way. Most retirees need a planner who coaches them and helps them understand volatility. Coaching means regular contact to explain what is happening with the three buckets and particularly, the growth portfolio.

For example: I have a portfolio backing my pension that has been operating for many years. I have one year's pension in the cash bucket and two years in the stable bucket. The balance is invested in a diversified portfolio of 12 wholesale managed funds covering local and overseas shares and listed property.

I commuted and added more funds to the pension in September 2014. Since then the portfolio as a whole has grown by 4.5 per cent and paid me a pension of 5 per cent. The cash bucket has slowly declined because in this period the pension has been more than the distributions. Of course, the year-end distributions are still to come. The stable bucket has maintained its value. I still have 3.2 times the pension in these two buckets.

The growth bucket has fluctuated widely going up 5.3 per cent in the month of February 2015 and down 4 per cent in the month of May 2015.

What about sequencing risk?

Under this system, the problem goes away. The illustrations of sequencing risk assume that the client is continually drawing down on their whole portfolio and potentially crystallising losses every month. The cash and stable accounts are there to protect the long-term growth portfolio.

What about lump sum withdrawals from the pension?

The key questions at the annual review concern the client's planned income and capital needs. Some capital needs can be planned for well in advance (such as a new car or a big trip) but some may be unexpected (such as medical expenses).

The stable buffer provides access to immediate and liquid funds (but at the risk of reducing the protection of the growth portfolio). If there is a need to sell down growth assets, it can be done in a considered way to minimise losses or to rebalance the portfolio.

Educating and coaching the client

The biggest risk of this system is that the client loses their nerve and wants to cash out of the growth assets. It would be good to share ideas of how planners have successfully coached clients on what to expect and why it's okay when dips in values happen.

Example 1:
Education is the key:

- Explain the expected returns (income and growth) from the different asset classes. Both property and shares produce income as well as growth.
- Illustrate how share values and dividends have consistently risen over time, though not in a straight line.
- Explain what the client will see and hear in the media, for instance, that the All Ords only tells part of the return story. It ignores dividends.
- Cash is risky (particularly at present) because rates are so low.
- Bonds are risky because the capital values will go down if interest rates rise.

Example 2:
If the retiree is aged 65, they need an income to last 20 or 30 years. The retiree is a long-term investor and income is more important than capital. To visualise this, the planner could divide up their capital into portions to be spent in their 70th year, 71st year and so on.

Example 3:
The fear of volatility comes from watching share prices and sombre economic news. A planner could compare investing in direct property and shares. A retiree might buy an investment property because they think it has good growth potential and will pay consistent rent. What happens when property prices appear to be falling? If they are confident in the long-term potential of the property, they would not rush out and sell it. This is partly because selling takes time and costs money.

Compare this to investing in shares. A retiree might buy because they think the company has good growth potential and will pay consistent dividends. If the share price falls, the retiree wouldn't sell if they are confident in the long-term potential of the company (note, same as for property).

Delegating these decisions to experienced fund managers reduces the risk for the retiree because someone else is doing the assessment and diversification spreads the risk if they get it wrong.

Conclusion

If this system works – and my experience is that it does – who is going to stand up and promote a different approach from the tired old risk profile mantra? Retirees will value good education, advice and coaching to help them manage the longevity and inflation risks and retain flexibility. We need to coach them to 'love volatility'.

Peter Grace has a career history in superannuation, life insurance and financial planning. He has run his own business as a writer, trainer and assessor in financial services for the last 13 years. He is an associate member of the FPA.

The long, hard road

With the US equity bull run coming to an end and continued weak global growth, where are the next opportunities in the international equities market? Zilla Efrat reports.

For financial planners and economists, it could read like the plot of a Stephen King novel: the global economy is sailing like an ocean liner, but without the usual kinds of policy lifeboats to save us in the event of another recession.

This picture, however, is painted by another Stephen King, the chief global economist for HSBC, in his latest report *The Global Economy's Titanic Problem*, where he warns that after six years of economic recovery in the US, "we are closer to the next recession than we have been to the last recession". And, conventional 'lifeboats', such as lowering interest rates or raising government spending, are just not around at the moment.

He says: "Whereas previous recoveries have enabled monetary and fiscal policymakers to replenish their ammunition, this recovery — both in the US and elsewhere — has been distinguished by a persistent munitions shortage. This is a major problem. In all recessions since the 1970s, the US Federal Reserve (Fed) funds rate has fallen by a minimum of 5 percentage points. That kind of traditional stimulus is now completely ruled out."

While others may be less pessimistic, the situation raises questions for investors in global equities and especially those in US stocks.

Already there are concerns that US stocks may have run as far as they can for now.

In a recent interview with Goldman Sachs, Yale professor and Nobel Laureate economist Robert Shiller said US stocks were overvalued and hadn't been this expensive since 2007. The only other instances were in 1929 and 2000, right before market crashes.

He saw a "bubble element driven by fear" in US stock markets, but added: "It's been an amazing run and looks like something that can't keep going indefinitely, but it might continue for several more years."

Similarly, a new report from global portfolio manager Tempo Asset Management predicts that high price/book valuations, the end of quantitative easing (QE) and a rising US dollar spell the end for the US equity bull market.

It warns that international investment returns for Australian investors could be disproportionately hit because of the heavy weighting of US

equities in the benchmark MSCI World Index.

"Annual US returns have been nearly 10 per cent higher than the average non-US market over the past five years and that has almost single-handedly driven the excellent international returns enjoyed by Australian investors. That's a remarkable performance, but it's also very unusual," says Tempo principal, Joe Bracken.

He says the large US outperformance over the past five years was something of an aberration since, historically, the US equity market has been just an average performer over the last 40 years. Over those four decades, it has been the top market performer in just three years: 2011, 2013 and 2014.

Garry Laurence, portfolio manager – global equities at Perpetual Investments, also points out that many global funds are overweight in the US at present.

However, he adds: "That's not necessarily where you will see the best opportunities in the next few years… The US economy is doing reasonably well, but the market has had a very strong run. We have had over six and a half years of a bull market in the S&P and we haven't seen any real corrections in the past two or three years. Valuations look quite full in most sectors in the US. That's why the S&P has stopped performing this year and we don't expect it to push too much higher from here over the next three to six months."

Likewise, Stuart James, senior investment specialist at Aberdeen Asset Management, believes that US markets will struggle to rise much further. "That doesn't mean that I am predicting a correction. I believe the best thing that could happen for US markets this year is for the Fed not to raise interest rates. Markets would react very positively to that. And, personally, I don't believe it will raise rates this year. It will find that very difficult, what with low inflation in the US, no real wage increases and the strong US dollar."

Opportunities

So, if US markets aren't beckoning, where else should your clients be investing?

Rupal J. Bhansali, chief investment officer, international and global equities, at Ariel Investments in New York, says international stock markets have performed well over the past year with the MSCI ACWI returning AUD +24 per cent for the year to end April.

"The best performing market has been China (up around AUD 160 per cent over this past year), as investors cheered the opening of the market to foreign investors via the Shanghai-Hong Kong Stock Connect program. Japan was another strong performer, with a rise of about AUD 36 per cent."

But by early June, markets had become increasingly jittery as investors worried about Greece turning out to be the first country to postpone a payment to the International Monetary Fund since the 1980s and the timing of a possible US interest rate hike.

"The world is a weird and wonderful place at the moment," says James. "From our perspective, world markets continue to be driven by macro factors and central bank policy, and generally there's little focus on the underlying fundamentals of the companies. I refer to this as the Lance Armstrong effect – stimuli are being used to generate superior performance."

Laurence adds: "Ironically, markets tend to perform when interest rates drop and governments try to stimulate their economies through monetary policy. And that's what we're seeing. Europe is conducting QE. That is causing the Euro to fall, but is stimulating European economies and equity markets. Similarly, in China, the economy is slowing down, so the Chinese government has been cutting interest rates. We've also seen property prices in China fall, so Chinese investors are taking funds out of property and investing in the stock market."

Given all the stimuli, James believes that international markets, on the whole, look relatively expensive. "In particular, developed markets like the US, Europe and Japan look fully valued when you consider the performance of the underlying companies. We probably see better value in emerging markets – Asia in particular, but ex-China.

"It's a difficult global market to invest in. You have weak underlying economic data and markets being stimulated by central banks and unorthodox monetary policy in places like Japan and the UK, which are basically feeding the market. And yet, if you look at the underlying health of some of the economies, debt levels are increasing and there is still a lot of work to be done," James says.

"Things do look a little fragile out there. But while investors continue to believe that central bankers will step into the fray and bail out markets if there is weakness, there is a strong possibility that markets could continue in their upward trend, certainly in the near term."

Tom Clarke, a portfolio manager at William Blair, sums it up as follows: "In general, it's not such a bullish equity story today as it would have been 12, 18 or 24 months ago. We have seen some gains and markets have gone up. From here, the opportunities are smaller than they used to be."

James finds Europe difficult to call at the moment, but says, despite the Greek debt situation, many are still quite bullish about the continent.

"Europe is like the US was in recent years. Given that the European Central Bank head, Mario Draghi is partaking in a lot of QE in Europe, and we saw what QE did for the US market, there is a degree of expectation that orthodox monetary policy in Europe could be quite supportive. So, Europe may surprise on the upside," James says.

"It all depends on the currency, as well as the stimulus," says Laurence. "If the Euro keeps falling, that will continue to help manufacturers and you have many high quality manufacturers in Europe, especially in Germany… If you look across the board, GDP growth is still relatively subdued in Europe.

"The countries we'd expect to see the best growth in are Germany and the UK. The UK hasn't run anywhere as hard as other European markets and we are still seeing attractive valuations in a number of its sectors, such as banks and financials."

Meanwhile, Bhansali sees Switzerland as a market well-positioned to perform over the medium-term.

"Swiss stocks have underperformed the rest of Europe due to fears of an appreciating Swiss Franc after the Swiss central bank unexpectedly abandoned its informal peg to the Euro in January 2016. Most Swiss stocks tend to be large multinationals with significant export earnings, which are adversely affected by a strengthening currency.

"Switzerland is best poised to recover due to its out of favour status with investors who have preferred European and Japanese equities as a way to play the weakening Euro and Yen. Swiss stocks have a large exposure to

Continued on p26

the US market and the strength of the US dollar benefits the Swiss exporters, albeit not to the same degree as their European or Japanese counterparts."

Bhansali expects developed markets to continue to outperform emerging markets, as growth disappoints while risks compound.

He says: "The 3C bubble in emerging markets has still not fully burst. Emerging markets enjoyed a decade long boom in commodities, construction and credit (the three Cs). This boom has now turned into a bust, but its aftershocks have not yet fully played out. Weaker economic growth, deteriorating demand for commodities and rising credit costs will conspire to hurt budget deficits and current account deficits. Corporates are likely to retrench after a debt binge in the past decade.

"Last but not least, currencies are likely to depreciate, reversing their decade-long trajectory of appreciation, which in turn will detract from performance instead of contributing to it."

Asia

When it comes to Asian markets, James believes the Chinese mainland stock market is potentially in bubble territory.

"It was up 50 per cent at the end of May. I would be wary about investing in these stocks. Some of the underlying fundamentals of the companies which have been driving that market need closer inspection," he says.

He adds that investors need to be very selective about the companies they look at in Japan.

"Japan had a relatively strong run in 2013," says James. "Its domestic economy is fairly sluggish and it has very high debt levels. It's going to be hard to grow the domestic economy given Japan's demographics... There is some truth that a falling yen has made Japanese exporters more competitive. But many currencies have been depreciating. It's a race to the bottom.

Leaning into the wind

David Graham CFP® outlines his approach to investing global equities and why it's been a hard sell.

International equities have been an asset class that we have long seen as providing additional diversification benefits. The breadth of companies and sectors in the global space far outweighs that available in Australia.

Nevertheless, it remains a hard sell to some who reflect a strong home country bias. It was a particularly hard sell before the GFC, with Australian equities performing well and a strengthening Australian dollar sapping the returns of unhedged global equity exposure from time-to-time. Moreover, the range of vehicles available was significantly narrower than the range currently available.

Since the GFC, we have been using global equity funds that are generally of a more specific nature and more reflective of our underlying investment philosophy. This philosophy is based on the idea that markets rise and fall, but quality companies keep growing their returns to shareholders and thus recover their price and provide long-term returns despite market movements. We have been able to select a range of managers that reflect this approach to varying degrees within specific sub-sectors.

In building a portfolio in this asset class, we also vary the manager type – that is, global small caps, emerging markets, yield driven, concentrated core and so forth. Overlying this selection, we determine a broad currency position by selecting some manager options that are hedged and some that are not. In other words, if we have five managers of equal weight and want a 40 per cent hedged position, two of the managers will be a hedged version. Implied in the latter is the fact we use managed funds in this sector.

We have looked at direct share approaches, but have not discovered an option that provides the same level of management skill or diversity. We look at ETFs from time to time, but the index approach does not sit comfortably with our quality overlay.

I see a disconnect with some clients who concentrate on the management expense ratio rather than the management skills. The academic evidence says you can't outperform the index, but anecdotally, we keep finding people who do. Maybe this is because 'quality' has been in vogue for the past six years or so.

Having had this approach for some years, our client portfolios have benefitted from the relative outperformance compared to Australian equities. This means more recently we have been trimming positions, taking some profits on global equity exposures.

Within the sector, we currently have a slight bias towards emerging markets due to more attractive valuations. However, this needs to be approached with caution. China has been on fire for the past year. Via manager selection, we have tried to avoid direct or indirect exposures where possible, as this appears to be the biggest stock market bubble since the tech wreck.

In addition, we expect that many of the managers we use will tend to underperform raw indices in a momentum driven market. This is the natural outcome of a quality driven approach when the market gets a little excited and forgets

David Graham CFP®

about the basics. We explain this to our clients in terms of the long-term risk adjusted returns we are trying to generate.

I note that the global equities sector is probably looking more attractive to clients in light of the relative performance of local equities of late. In some respects, they are about four years too late.

This does not mean they cannot enjoy further upside in global equities in the next few years, especially if the Australian dollar continues to weaken.

However, the best may already be behind us in this cycle. This is why we are taking some profits from this sector. We aim to 'lean into the wind' in an incremental and systematic manner.

It's not always easy to convince clients of this approach, but that's what advice is all about.

David Graham CFP® is a senior financial planner at McPhail HLG Financial Planning.

"Ten years ago, if you wanted quality, you would go Japan. But given Japan's domestic woes over the past 10 years, some of its corporates have begun to lose their competitive advantage. And companies in other parts of Asia have come along and stolen their lead in innovation – take Samsung or Kia, for example."

While he still thinks there are great opportunities in China and Hong Kong, given the rise in the Chinese market over the past six months, Laurence is looking at other Asian countries for new opportunities, such as Taiwan and Korea. For his part, Clarke likes Korea, China and Vietnam.

India has been a strong performer and was a market darling following the election win by a more reform-minded government led by Prime Minister Narendra Modi. But Bhansali believes investor enthusiasm was premature. "The euphoria surrounding an ambitious agenda will subside as the hard realities of delayed execution timelines set in."

Emerging markets

When it comes to emerging markets in general, James is fairly bullish. "The long-term growth trends are still there. Large populations, young populations, rising incomes and increased consumption. That story is not broken.

But within emerging markets we have some slightly different cyclical pressures. Latin America is a more commodity driven market. So, markets like Brazil, in particular, are coming under pressure from weak oil and commodity prices, although Brazil also has other issues which are more of a political or corruption nature. Brazil is a fairly tough market in the short-term, but I believe it has good long-term prospects."

Similarly, James says Russia is very much a petro dollar economy. "The fall in the oil price has put a lot of pressure on the Russian economy. When you couple that with sanctions, Russia is having a very tough time. I'd be more wary of Russia, partly because of poor corporate governance."

Given that he views some markets as overvalued, James sees more opportunities in some of the more defensive equity sectors, such as consumer staples, pharmaceutical companies and banks – especially in Asia where consumers have less debt and are looking to borrow more money, compared to Europe, where debt levels are relatively high and despite low interest rates, people are very reluctant to borrow any money.

Laurence is also overweight in financials and believes that banks globally are undervalued. He expects US banks to benefit from rising interest rates in the US.

Clarke adds: "We want to be quite defensive right now because even though there are valuation opportunities, there are also short-term risks and there could be downside risks to equities. At present, we are provisioned long of large cap and value exposures and short of small caps and growth exposures – a sort of defensive style/size bias that would offer more protection if markets declined.

"What we have done after the reasonably big run up is to say, looking forward from today, the opportunity is not as big as it was. And that justifies taking less risk.

"The bigger the opportunities, the more exposure one should have. The smaller the opportunities, it doesn't make sense to carry on taking the same type of exposure."

Taxation of excess non-concessional contributions

SIMONE COLLINS
BT FINANCIAL GROUP

THIS ARTICLE IS WORTH
0.5 CPD HOURS
CRITICAL THINKING

Includes

- **Associated earnings and the proxy rate**
- **Compulsory Release Authority**
- **General Interest Charge**

One of the more pleasing announcements from last year's Federal Budget, was the intention to reform the tax treatment of excess non-concessional contributions. This came seven years after the commencement of the Howard/Costello Government's Simpler Super package that introduced the concept of contribution caps to superannuation. Since then there has been much disquiet about the unintended consequences of individuals mucking up the bring-forward rules or the tax deduction notice rules with the excess being taxed in some extreme cases at over 90 per cent.

While this measure took a little time to develop, it finally passed into law with *Tax and Superannuation Laws Amendment (2014 Measures No.7) Act 2015*, receiving royal assent in March 2015, and is effective for non-concessional contribution breaches in respect of the 2013-14 financial year onwards.

In a nutshell, what is the new tax treatment?

The revised tax treatment applies to excess non-concessional contributions made in the 2013-14 and subsequent financial years. Generally, the individual can elect to have excess non-concessional contributions (NCC) and their associated earnings released from super. The associated earnings calculated on the individual's excess non-concessional contributions released will be taxed at their marginal tax rate (plus Medicare levy), while the excess NCCs will be released tax-free.

Alternatively, an individual can retain their excess NCCs in their super fund and have the excess contributions tax treatment apply as usual.

Note that there are no changes to the contributions or amounts that are considered to be non-concessional contributions or to the way that your non-concessional contributions cap is worked out.

Previous tax treatment

Prior to this legislation being enacted, super contributions that exceeded an individual's non-concessional contributions cap were taxed at the highest marginal tax rate (currently 45 per cent plus Medicare Levy). The full amount of the excess non-concessional contributions tax is required to be withdrawn from the individual's super fund.

This treatment will continue to apply for excess non-concessional contributions made from 2013-14 where an individual doesn't elect to release the NCC and associated earnings from their superannuation fund. See Table 1.

Receiving an excess NCC determination

When an individual breaches their non-concessional contributions (NCC) cap from the 2013-14 financial year, they will now be issued with an excess NCC determination from the ATO for the financial year in which the excess NCC occurred. The determination will state:

- the amount of excess NCC;
- the amount of associated earnings; and
- the total release amount, which is the amount of the excess NCC plus 85 per cent of the associated earnings (reflecting the 15 per cent tax applied on the associated earnings in the superannuation fund).

The determination will allow the individual to elect to have the total release amount paid from their chosen superannuation fund(s). An election must be given

Table 1: Non-concessional contributions cap

	Non-concessional contributions cap	Utilising 'Bring-forward' rules for those under age 65 on 1 July
For financial years from 01/07/2007 to 30/06/2014	$150,000	$450,000
For financial years 2014/2015 and 2015/2016	$180,000	$540,000

to the ATO within 60 days and is irrevocable. An election to release only part of the total amount is not permitted.

Associated earnings and proxy rate

Associated earnings on the amount of excess NCC will be calculated using a proxy rate of return.

The proxy rate is based on the quarterly general interest charge rate for the financial year in which the excess NCC are made, expressed as a daily rate.

Earnings on the amount of excess NCC are both calculated and compounded daily. The earnings are calculated over the period starting from the first day of the financial year and ending on the date the (first) excess NCC determination is made.

In addition, the Minister has the power to determine a proxy rate for a particular financial year. This power may be exercised where the proxy rate calculated above would be significantly higher than the typical earnings of super funds for the relevant financial year, e.g. due to a financial crisis or similar.

Election(s) made

The individual can elect to release the total release amount from their superannuation fund(s) or elect not to release any amount from superannuation because the value of all their superannuation interests is nil.

Where the individual makes an election and the ATO advises the individual that the superannuation fund nominated was unable to pay the total release amount in full, the individual will be able to nominate another super fund if they have one, or elect not to release any amount from super because the value of all their interests is nil.

So the individual may make a series of elections nominating different super funds to release the remaining amount of the total release amount until either:

- their remaining super interest is a voluntary super interest where the trustee need not comply with the release authority, i.e. a defined benefit interest; or
- their super interests reduce to nil, after which they will make a final election not to release any further amount from super because the value of all their superannuation interests is nil.

The individual will not pay any excess non-concessional contributions tax where:

a) the total release amount is released from superannuation; or
b) the individual elects not to release an amount, as their total superannuation balance is nil and the ATO issues a direction confirming this.

Continued on p30

In these cases, however, the full amount of associated earnings will be included in the individual's assessable income. A 15 per cent tax offset will apply on the associated earnings, reflecting that the superannuation fund has already paid tax on the fund earnings.

Where the amount(s) released from superannuation is less than the amount of excess NCC stated in the determination but the individual still has an existing superannuation interest, e.g. a defined benefit interest, the individual will generally have to pay excess non-concessional contributions tax. The tax will be payable on the difference between the excess NCC in the determination and the amount released.

The associated earnings on the amount of excess NCC released will be included in the individual's assessable income and a 15 per cent tax offset will apply on these earnings.

Release authority

Where an individual makes an election to have the total release amount paid from their nominated superannuation fund(s), the ATO will issue a release authority to the trustee of the superannuation fund(s).

Upon receipt of the release authority, the trustee must pay the total release amount to the individual within 21 days of the date of the release authority. Broadly, the trustee must also advise the ATO and the member that an amount has been released under the release authority within the same time-frame.

It is voluntary for the trustee to pay any part of the total release amount from a defined benefit interest.

The amount paid from superannuation under the release authority is non-assessable, non-exempt income to the individual.

Further, the proportioning rule does not apply to the amount released (unless released from an income stream where the tax-free and taxable percentages are fixed).

Example*

In the 2014-15 financial year, Reginald makes non-concessional contributions that result in him exceeding his non-concessional contributions cap by $100,000. The Commissioner determines that the associated earnings amount is $19,000. The Commissioner gives him a notice of excess non-concessional contributions determination stating his excess contributions amount of $100,000, an associated earnings amount of $19,000 and a total release amount of $116,150 ($100,000 plus 85 per cent of the associated earnings amount of $19,000).

Reginald makes a valid election to release the total release amount of $116,150 from his superannuation interests by notifying the Commissioner and specifying a superannuation provider that holds an interest for him.

The Commissioner issues Reginald's superannuation provider with a release authority requiring the provider to make a payment to Reginald of $116,150 from his superannuation interest.

That amount is paid to Reginald by his superannuation provider in compliance with the release authority. The amount is non-assessable, non-exempt income in his hands.

The superannuation provider notifies the Commissioner and Reginald of the payment of $116,150 made in accordance with the release authority.

As a result of the release of the amount from his superannuation interest, Reginald no longer has excess non-concessional contributions, and so is not liable for excess non-concessional contributions tax. The associated earnings amount of $19,000 is included in his assessable income for the 2014-15 income year and taxed at his marginal tax rate.

Reginald is also entitled to a non-refundable tax-offset of $2,850, being 15 per cent of $19,000.

** This example is from page 21 of Explanatory Memorandum of Tax and Superannuation Laws Amendment (2014 Measures No. 7) Bill 2014 (Example 1.2).*

No election made

If the individual does not make an election within 60 days, they will then receive an excess non-concessional contributions tax assessment and a Compulsory Release Authority (CRA) from the ATO in the existing manner. The individual can pay the tax in a number of ways but must use the release authority to withdraw the excess contributions tax amount from their superannuation.

Excess NCC retained in superannuation

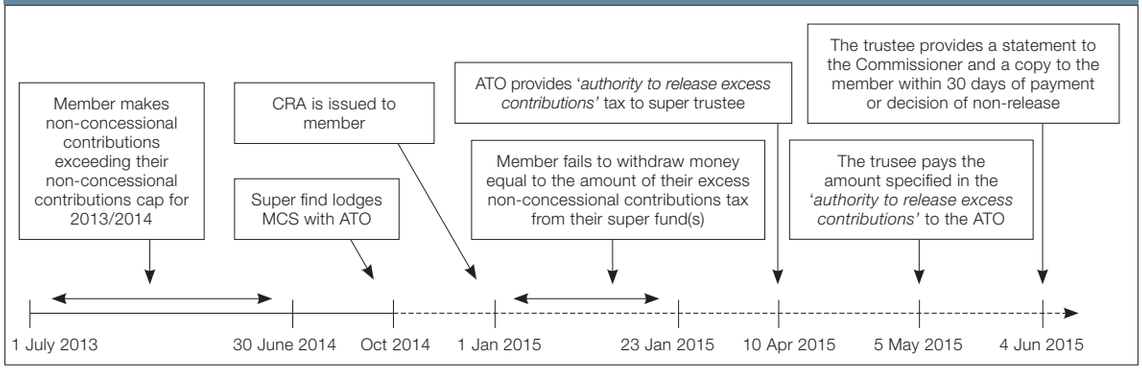
Where excess NCC remain within the super fund, the individual will be liable for tax at a rate of 45 per cent plus Medicare Levy.

The ATO will inform the individual of this liability and provide them with a CRA. Excess contributions tax is due and payable within 21 days after the ATO gives the individual notice of the liability. If excess contributions tax remains unpaid after the due date, penalties may be payable on the unpaid amount (shortfall interest charge and general interest charge).

Providing a CRA to a superannuation fund

Individuals must withdraw the required amount from a superannuation fund to pay the tax, using the CRA. The individual must provide the CRA to their superannuation provider within

Figure 1: Timeline of ATO's authority to release excess contributions tax



21 days after the CRA issue date. Individuals can direct their superannuation fund to release the required amount to themselves or directly to the ATO.

Where an individual accesses more than the amount authorised for release, that amount will be included in their assessable income and will be subject to income tax at marginal rates. This situation would only arise where a member submits the CRA to more than one fund.

If an individual fails to provide the CRA to their superannuation fund within 90 days after the CRA issue date, or if the total amounts paid by superannuation funds fall short of the excess non-concessional contributions tax liability, the ATO may provide an authority to release excess contributions tax directly to one or more superannuation funds that hold a superannuation interest (other than a defined benefit interest) for the individual.

Time limit for super funds to release amounts under a CRA

A superannuation fund that has been provided with a CRA will have 30 days to pay the individual or the ATO the lesser of:

- the specified amount requested by the individual in writing;
- the amount of excess non-concessional contributions tax stated in the CRA;
- the total of the values of every superannuation interest (other than defined benefit interest) held by the superannuation provider for the individual.

The dates shown on the broken section of the timeline in Figure 1 have been selected to demonstrate the process and how it will vary for actual cases.

How the General Interest Charge applies for late payments

- According to the legislation, excess contributions tax is payable within 21 days after the ATO gives an individual notice of the liability. However, a superannuation fund has 30 days after receiving a release authority to pay the required amount.
- This timing difference can result in late payment of excess contributions tax and penalties, such as the General Interest Charge (GIC).
- The ATO has, however, indicated that relief may be provided where the delay in payment is a result of the time taken by the superannuation fund to release the money. The ATO document *'Super contributions - too much super can mean extra tax'* states that:

The excess non-concessional (after-tax) contributions tax is due and payable 21 days after you receive your notice of assessment.

If you don't pay the excess non-concessional (after-tax) contributions tax by the due date, general interest charge (GIC) may apply. However, you can request we return any GIC you incur.

Generally, if you give your release authority to your fund within the time allowed for payment, and your fund makes the payment within 30 days (or any delay in payment was not within your control), we may remit the GIC.

Conclusion

While the introduction of the new treatment for the taxation of excess non-concessional contributions has generally been well received, financial planners should still continue to make every effort to ensure that their clients do not inadvertently breach their contributions caps.

QUESTIONS

1. The new tax treatment for excessive non-concessional contributions commences for contributions made in which financial year?

a. 2013/2014.
b. 2014/2015.
c. 2015/2016.
d. 2016/2017.

2. How long does an individual have to make an election to the ATO after receiving an excessive non-concessional contributions determination?

a. 21 days from Compulsory Release Authority (CRA) issue date.
b. 28 days from Compulsory Release Authority (CRA) issue date.
c. 60 days from Compulsory Release Authority (CRA) issue date.
d. 90 days from Compulsory Release Authority (CRA) issue date.

3. The total release amount on an excessive non-concessional contributions determination from the ATO is the amount of:

a. non-concessional contributions made plus associated earnings.
b. excess non-concessional contributions plus associated earnings.
c. excess non-concessional contributions plus 85 per cent of associated earnings.
d. excess non-concessional contributions plus 115 per cent of associated earnings.

4. Which of these statements best outlines what happens where an individual ignores the excess non-concessional contributions determination from the ATO:

a. The ATO issues the individual's super fund with a Compulsory Release Authority (CRA) to withdraw the 'total release amount'.
b. The ATO automatically adds the amount of associated earnings into the individual's tax return.
c. The ATO issues the individual with a penalty notice for failure of payment.
d. The ATO issues the individual with an excess non-concessional contributions tax assessment and a Compulsory Release Authority (CRA).

Simone Collins is Senior Manager, Product Technical, BT Financial Group and the BT Product Technical Team.

BENJAMIN MARTIN
IOOF

THIS ARTICLE IS WORTH
0.5 CPD HOURS
CRITICAL THINKING

Includes

- **In-specie contributions**
- **Super work test rule**
- **15-year exemption concession**
- **Small business $500,000 retirement exemption**

5 refreshers: Small business CGT concessions and super

You're invited to a meeting with an accountant to talk about a client's entitlement to tax relief under the small business capital gains tax (CGT) concessions. Knowing you can't provide tax advice, the accountant wants your input on two areas:

- can the sales proceeds be contributed to the client's super fund?; and
- how these assets can be managed to fund the client's retirement?

While your file notes and technical material on superannuation and small business concessions are a valuable source of knowledge, a couple of questions remain.

1. Do the concessions actually require the client to retire?

You recall reading that the need to 'retire' depends on which concession is being targeted – the 'premier' 15-year exemption or small business $500,000 retirement exemption.

15-year exemption

If the client is over 55 and has owned the active business asset for at least 15 years, then a declaration of retirement is required to meet the specific conditions of the 15-year exemption[1]. The 15-year exemption implicitly recognises that the taxpayer has reached the end of the small business road and the sale of the business is part of the client's grand retirement plan.

But what constitutes 'retirement' to gain the exemption? Usually when a client retires, it's a clean break with no intention to resume paid work. This is arguably what the legislation contemplates when it states "in connection with your retirement".

But what if the client, the previous owner, stays on in a consultative role over the following two years for say, a few hours per week, as the new business owner takes over the reins? The ATO acknowledges these commercial realities and would consider the client to have retired for the purposes of the 15-year exemption, even though the client is still 'gainfully' employed (albeit in a reduced capacity). Ultimately, there needs to be evidence of a significant change in work patterns in order for one to be regarded as 'retired'.

Any arrangement to remain semi-active in the business may also have spill over effects to super law. Recall that the super law definition of retirement for someone under 60 has two components: firstly, the employment arrangement must have actually terminated and secondly, the trustee of the super fund must be reasonably satisfied that the client has no intention of undertaking paid work for more than 10 hours per week going forward.

So, if a client acts as a consultant to the new business owner as part of the business succession plan, access to super may be limited. However, if the previous owner is over 60, full access to super is granted upon merely ceasing an employment arrangement, irrespective of future work intentions. Clients need to be made aware of these restrictions upfront, particularly if they will need to drawdown on their super to meet cash flow requirements.

$500,000 retirement exemption

If, on the other hand, the active business asset has been owned for less than 15 years, the $500,000 retirement exemption generally can be used as part of the CGT calculation 'reduction process'. The aim of this 'reduction process' is to reduce the gross capital gain using all available concessions including:

- capital losses, if any;
- 50 per cent general discount if eligible;
- Optional 50 per cent active asset relief;
- Optional $500,000 retirement concession; and
- Optional two year rollover.

However, contrary to its name, the $500,000 retirement exemption does not require the client to actually retire, instead imposing specific conditions independent to retirement.

One of these specific conditions that many planners would be familiar with is the 'forced contribution rule' applying to individuals under 55.

Broadly, this rule states that if the taxpayer is under 55 and applying the $500,000 retirement exemption as part of the CGT calculation 'reduction process', then any amount subsequently claimed ('exempted amount') must be contributed to super. It's a trade-off; the taxpayer gets up to $500,000 CGT relief over their lifetime in the form of the $500,000 retirement exemption but only on the proviso that the exempted amount is put into super for their impending retirement if they're under 55.

However, if the client is over 55, the 'forced contribution rule' does not apply nor is the client obliged to retire from the workforce.

2. When does the contribution actually have to be made?

So, the $500,000 retirement exemption has a forced contribute rule for under 55s. But when does the contribution actually have to be made?

Recall that the requirement to make a compulsory contribution to super only applies if the individual is under 55 at the time of making the requisite written 'choice' to apply the retirement exemption. Any exempted amount must then be contributed to super by the latter of the following two dates:

1. When sale proceeds are received; or
2. When the client makes the requisite written 'choice' to apply the $500,000 retirement exemption.

This choice could be in the form of a one page hand-written document signed by the taxpayer outlining how much of the lifetime $500,000 retirement exemption is to be claimed. Importantly, though, the choice election is separate to, and distinct from, the client's tax return. This is an important technical point and one that in practice affords the taxpayer an element of discretion as to when, and indeed if, an exempted amount needs to be contributed to super.

Consider the following scenario.

Your client, aged 52, receives the sale proceeds at the beginning of the financial year, and wants to hold onto the sale proceeds for the remainder of the financial year.

In this case, the legislation allows the client to hold off from making the contribution of the exempted amount until the written 'choice' to apply the retirement exemption is actually made. So the client could, in theory, hold off from drafting the required written choice election until the following September, at which point the exempted amount must immediately be contributed to super, accompanied by the CGT cap election form. Their accountant then lodges the tax return one month later in October.

This also means that, if a client is turning 55 shortly after the particular CGT event, holding off from making this written choice until after their 55th birthday avoids the need to contribute any exempted amount to super, as the client is no longer under 55 at the time of making the written choice.

If, on the other hand, the client wants to contribute the proceeds into super as soon as possible, then the client can also 'bring forward' the choice election. So if sale proceeds are received towards the beginning of the financial year, on say 23 August, then the client could in theory document their written election at the end of August evidencing their choice to apply the retirement exemption, then contribute the exempted amount to super immediately accompanied by the CGT cap election form.

The point here is that one of the conditions of the $500,000 retirement exemption is that a written choice be made and kept on file, so it's critical we get this paper trail right, otherwise the desired CGT relief may be jeopardised.

Don't jump the gun when it comes to contributing sale proceeds to super thinking that the CGT cap election form is all that is required from an administrative perspective. The tax law lays out a set of specific conditions – some of which are very administrative by their very nature – which must be adhered to in order to qualify for small business CGT relief.

3. In-specie contributions and the retirement exemption

If a client under 55 years of age makes an in-specie contribution of business real property into an SMSF, whilst targeting the $500,000 retirement exemption, the requirement to contribute the 'exempted amount' into super (for under 55s) will not be satisfied by virtue of the in-specie contribution itself.

This stems from an ATO interpretation that the actual CGT event, the written choice election and 'forced' contribution cannot take place simultaneously on the same day (which is what one technically requires in the in-specie scenario).

This can be a tricky part of the tax law and requires specialist tax advice to oversee the transaction and/or the attainment of a private binding ruling from the ATO. Ultimately, it means that the client would have to find the cash to make a second follow-up cash contribution of the exempted amount into super. Without a follow-up cash contribution, the conditions to qualify for relief under the retirement exemption will not be satisfied.

In theory, the cash could come from within the SMSF or in the absence of liquidity, within the fund via a short-term limited recourse borrowing arrangement in consideration for the partial acquisition of the business real property from the member.

4. Does the work test still need to be met for clients over 65?

Absolutely. While the tax law may provide CGT relief on the sale of active business assets, any subsequent contribution of sale proceeds into super must be done in accordance with super law. In other words, the super work test rule does not have a special 'carve out' for small business owners who have qualified for CGT relief on the sale of active business assets.

So, usual super law considerations around tax file number requirements and the need to satisfy the work test still apply. This means that if a client is over 65 and meets the requirements of the 15-year exemption but fails to meet the work test, then the proceeds cannot subsequently be contributed to super. This may happen in delayed settlement scenarios where sale proceeds

Continued on p34

are not physically received until the following financial year when the client is over 65 and no longer working.

5. Sale proceeds from the disposal of an active business amount to $1 million

Can a 60-year-old client contribute the entire $1 million in sale proceeds to super and have this attributed to the $1,355,000 CGT contribution cap?

The starting point here is that full use of the $1,355,000 CGT contribution is generally only available if the 15-year exemption is in play. So, if the client in this scenario qualified for full CGT relief under the 15-year exemption, the entire $1 million in sale proceeds could be contributed to super using the CGT contribution cap, assuming they owned the asset solely in their own name.

If the 15-year exemption is not in play, then use of the $1,355,000 CGT contribution cap will be limited to the amount of gain exempted under the retirement exemption – the 'exempted amount'. This is an important technical point, so to best illustrate this, let's look at some numbers. Refer to Scenario A.

The first point that needs to be made here is that the CGT reduction process has reduced the $700,000 gross capital gain to nil. This is our primary objective – satisfy the tests that entitle us to apply the concessions to reduce, or totally eliminate, the capital gain.

However, from a super contribution cap perspective, notice how the application of the optional CGT concessions in this particular manner has provided the client with only $175,000 of the CGT contribution cap. In other words, the CGT calculation 'reduction process' has produced an exempted amount of $175,000. If the client intends on contributing the sale proceeds to super (noting that the forced contribution rule doesn't apply because the client is over 55), they will only have $175,000 of the $1,355,000 CGT contribution cap at their disposal.

That leaves us with remaining sale proceeds of $825,000. If the client's objective is to then maximise contributions to super, we need to work within the limits of the non-concessional contributions cap. As a result, this requires careful planning around timing the triggering of the 'bring-forward' rule.

For example, prior to 30 June 2015, the client could contribute $180,000, then contribute a further $540,000 after 1 July 2015. Putting aside any ability to make $35,000 in personal deductible contributions (assuming the client is over 50), in the worst case scenario, the remaining sale proceeds of $105,000 would have to accumulate outside super unless, subject to the qualifying conditions and preservation considerations, the client makes a contribution on behalf of a spouse.

Alternatively, we could hold off from triggering the 'bring-forward' rule until the 2016-17 financial year, after contributing $180,000 in each of the preceding two financial years.

Now consider a different scenario, Scenario B.

In this scenario there is the same asset value and gross capital gain, but a slightly different CGT calculation reduction process is applied.

You will notice that once again we end up with a nil capital gain, but the fundamental difference from Scenario A is that the optional 50 per cent active asset reduction has been 'bypassed'.

The legislation does not force us to apply the 50 per cent active asset reduction and this is an example of when we may want to bypass it as part of the CGT calculation reduction process.

In this particular instance, doing so enables a higher gross capital gain of $350,000 to be 'washed

Scenario A

		CGT super contribution cap	Residual sale proceeds
Market value of active business asset	$1,000,000		
Cost base	$300,000		
Gross capital gain[2]	$700,000		
50% general discount	($350,000)		
Optional 50% active asset reduction	($175,000)		
Optional (up to) $500,000 retirement exemption	($175,000)	$175,000	$825,000
Net capital gain	**Nil**		

Scenario B

		CGT super contribution cap	Residual sale proceeds
Market value of active business asset	$1,000,000		
Cost base	$300,000		
Gross capital gain	$700,000		
50% general discount	($350,000)		
Optional 50% active asset reduction	bypass		
Optional (up to) $500,000 retirement exemption	($350,000)	$350,000	$650,000
Net capital gain	**Nil**		

away' using the $500,000 retirement exemption. A higher amount of $350,000 can in turn be contributed into super using the CGT contribution cap (compared with $175,000 in Scenario A). This leaves $650,000 for negotiation with the non-concessional contributions cap.

Again, timing of the 'bring-forward' trigger helps here. The client could contribute $180,000 before 30 June 2015, then from 1 July 2015 contribute the remaining $470,000. In the wash up, the entire $1 million in sale proceeds has been contributed into their own personal super interest within the space of three months.

Other observations

Do not lose sight of the bigger picture here. The primary objective should always be that the small business owner qualifies for CGT relief on disposal of active business assets by satisfying the basic and specific conditions laid out in the tax law. If it turns out that these conditions and tests have been met, then the discussion could extend to the rules that allow sale proceeds to be contributed to super using the CGT contribution cap.

If sale proceeds are intending to be injected into the super environment, strict time frames and administrative guidelines need to be adhered to. For example, the super fund needs to be made aware in advance, or at the time of contribution, that the contribution itself stems from the sale of an active business asset. This is done using a special CGT cap contribution election form (NAT 71161). Also, ensure any necessary or discretionary CGT cap contributions are made within the prescribed timeframes.

In this article, we focused solely on individuals disposing of active business assets. In the real world, assets might be owned jointly (say between husband and wife), so the rules apply to each owner in respect of their share of the capital gain and proceeds accordingly.

From time to time, you may also have clients who have private trusts and/or companies that are themselves disposing of active business assets.

In other words, the CGT event is taking place inside an entity and not in the individual's hands. This arguably introduces an added layer of complexity, given the need for the disposing entity to not only satisfy the strict tests and conditions to qualify for CGT relief in the first place, but also given any desire to push these proceeds out of the operating entity in a tax-effective manner. Nevertheless, expert planning and advice could provide the beneficiaries of these entities with use of part or all of the CGT contribution cap.

The ATO has made it clear that it will take a closer look at any clients claiming small business CGT relief.

Ultimately, the onus is on the accountant to confirm the availability of the small business CGT concessions but if it turns out that the client qualifies, then there are opportunities for financial planners to be involved in the discussion, particularly as attention turns to the injection of those sale proceeds into the super environment using the $1,355,000 CGT super contribution cap (being indexed to $1,395,000 for 2015-16).

Benjamin Martin is Technical Services Manager, IOOF.

Footnotes

1. Note that before even considering these specific conditions, the disposing entity must satisfy an initial set of basic conditions, i.e. active asset test, aggregated $2 million turnover test/$6 million net asset value test and finally the CGT concession stakeholder test (if the asset being disposed are shares/units). If we cannot jump this initial hurdle – the basic conditions – then small business CGT relief is not available and the 15-year exemption becomes a non-issue. Note also that the 15-year exemption also caters for the disposal of active business assets due to a permanent disability.

2. Assuming nil capital losses available.

QUESTIONS

1. In order to satisfy the specific conditions of the 15-year exemption, broadly a client needs to have first met the initial set of basic conditions, have owned the active asset for at least 15 years, be aged over 55 and the sale must be in connection with his/her retirement? True or false?

a. True

b. False. If the 15-year exemption has been satisfied, there is no requirement to satisfy the initial set of basic conditions (turnover/NAV test, active asset test etc).

2. If a 67-year-old client meets the specific conditions of the 15-year exemption, they can contribute their share of the sale proceeds to a super fund without having to meet the work test. True or False?

a. True.

b. False.

3. My 58-year-old client has sold an active business asset that she owned personally for eight years for $1,100,000. The accountant has confirmed that we can apply the small business concessions to reduce the $1 million gross capital gain to nil. After applying the 50 per cent general discount, the retirement exemption was applied to reduce the remaining capital gain to nil. As far as the $1,100,000 in sale proceeds is concerned, up to how much could be contributed to super using the CGT contribution cap?

a. $1,100,000.

b. $1,000,000.

c. $500,000.

d. Nil.

4. The 'forced contribution' rule for under 55s states that the retirement exempted amount must be contributed to super by the latter of two dates, the first being when the proceeds are received and the second being:

a. When the tax return for the income year of disposal is lodged.

b. When the client makes the requisite written 'choice' to apply the $500,000 retirement exemption.

c. When the CGT cap election form is signed.

d. None of the above.

Quarterly Complaints

– January to March 2015 –

Disciplinary Activity Summary

In the March 2015 quarter, the FPA received nine new complaints, finalised nine investigations and has seven ongoing investigations. Of those ongoing investigations, one continuing matter had a further report to the FPA's Conduct Review Commission (CRC), resulting in a Notice of Disciplinary Hearing being issued to the member. Other activity includes the issuing of an Infringement Notice to a member and another matter being finalised by Summary Disposal.

COMPLAINTS AND DISCIPLINARY REPORT
January to March 2015

Investigations ongoing as at 31 December 2014	7
New investigations	9
Investigations closed	9
Investigations ongoing as at 31 March 2015	7
Members suspended	0
Members expelled (CRC)	0
Members Terminated (Constitution) • Alan Kenyon • Shane Thompson	2
Other Sanctions (CRC) Summary Disposal – fine, professional education and reprimand	1
Referred to Professional Designations Committee for Sanction	0

A tale of two members

The FPA complaint process is not intended to be unnecessarily punitive. An important part of the process is for practitioners and the practising profession to learn not only from their own mistakes but also from those of others.

The following two case studies demonstrate how these learnings and other benefits can be achieved from the FPA complaint process when embraced by members.

Case 1: The worst of times

The FPA received a complaint against a CFP® practitioner member (the member) from another FPA member (the complainant). The essence of the complaint was that:

- the member had discussions with three clients of his financial planning business regarding the sale of founder units they held in an investment fund;
- the member sold the founder units to these clients at different unit prices;
- the clients were not given the same information about the proposed sale;
- the clients were not fully aware of whose interests the member was representing – theirs as a private individual or theirs as their financial planner; and
- the clients, who may have been retail clients, did not receive a Statement of Advice in regards to the member's recommendation that they purchase the founder units.

The complaint raised prima facie concerns the member may have breached various enforceable elements of the FPA Code of Professional Practice (the Code).

The member was contacted by telephone, then invited to make a submission to the FPA about the complaint, its subject matter or both. Unfortunately, the member took an adversarial stance from an early stage. The FPA received a response from the member's legal representative, which advised, among other things, that the member:

- made no admissions in relation to the allegations;
- did not wish to expend time or money dealing with this investigation;
- resigned from the FPA; and
- would not enter into any further correspondence in this matter.

The FPA informed the member's legal representative that the FPA must not accept the resignation and advised the member had a duty to provide reasonable assistance to the FPA in connection with the complaint.

The member's legal representative reiterated the member's previous position and advised this would be the final correspondence in the matter.

FPA members are required to provide 'reasonable assistance' to the FPA in connection with any complaint and investigation. A member commits a 'special breach' by failing or refusing to provide reasonable assistance when requested to do so.

'Reasonable assistance' includes the production of documents and the provision of information. What constitutes a reasonable excuse will depend on the circumstances of the individual case, and could include:

a. that the member does not, in fact, have the documents or information sought by the FPA. Where applicable, the member should say who they think does, in fact, have the documents or information requested;
b. a rule of law that provides an excuse for non-production of documents or information to a court.

The FPA would be amenable to an application for extension of time for provision of reasonable assistance if, for example, a member or an immediate family member of theirs was suffering from serious illness or because of other personal compassionate circumstances.

The purpose of the provision is not to be unreasonable, but to ensure that members reasonably co-operate with the FPA in the investigation and determination of any complaint made against them that they have breached their professional obligations. The consequences for not doing so are serious and may impact on the reputation of the member, the FPA and its members. It undermines the integrity of the disciplinary scheme when members choose not to comply with their obligations as a member of the FPA and a member of the financial planning profession.

A member who commits a 'special breach' without reasonable excuse may be fined by the CRC.

In this particular case, the CRC was of the view that the member's

and Discipline Report

decision to not participate in the investigation could not constitute a 'reasonable excuse' and that the member had shown disregard for his professional duty. The member was fined.

Where a member was subject to disciplinary proceedings and fails to pay a monetary penalty imposed by the relevant body (the CRC) within 42 days, their membership is automatically terminated with immediate effect and without any discretion by the FPA.

Case 2: The best of times

This matter concerned alleged breaches of FPA Rules of Professional Conduct (Pre-2009) by a CFP® practitioner member who was an employee representative of a corporate authorised representative of a licensee. The essence of the trustees' (of an SMSF) complaint was that the member's recommendations to them in 2006 and 2007 were unsuitable and that they did not understand the risks of accepting the member's recommendations.

The trustees complained to the FPA in 2012. Subsequently, the trustees received an undisclosed amount of compensation in a confidential settlement, independent of the FPA. This prevented the trustees from continuing with the FPA complaint; however, the FPA made a decision to become the complainant.

Following the FPA's investigation, the complaint was reported to the Chair of the CRC who directed the FPA to issue a 'Notice of Charge' to the member for alleged breaches of: Rule 110 (Develop a suitable financial strategy based on relevant information collected and analysed) and Rule 111 (Provide an explanation of investment risks in terms that the client is likely to understand).

The member accepted full professional accountability for the advice given. Importantly, the member fully co-operated during the entire FPA investigation, instead of attempting to rely upon the compensating of the clients and their unavailability as complainant. There was an acceptance of using this experience to grow understanding and to change conduct and processes personally as a financial planner and in the routines of the business.

The FPA acknowledged the member's explanation that a factor in these breaches was the strategy guidance provided by the member's employer at the time, which was heavily geared towards an over-exposure in property during 2006 and 2007.

As a result of the member's co-operation and responses, the FPA invited the member to discuss terms for a 'Summary Disposal' of the matter without the need for a CRC hearing.

Following discussions, the FPA reached agreement with the member, whereby the member acknowledged a breach of:

1. Rule 110, requiring members to develop a suitable financial strategy based on relevant information collected and analysed. The member's recommendations to the trustees in the SoA in 2006 and the SoAA in 2007 were unsuitable because:

- allocating 50 per cent of the portfolio in unlisted property trusts placed too high a proportion of the trustees' investment capital in a high risk, illiquid asset, particularly for retirees who were in pension phase; and
- allocating 25 per cent of the trustees' portfolio to unlisted property trusts managed by the one fund manager was unsuitable, as this failed to provide adequate diversification, particularly in view of related party transactions referred to in the PDSs.

2. Rule 111, requiring members to provide an explanation of the investment risks in terms that the client is likely to understand, because:

- the investment strategy formulated by the member identified the main risk of unlisted property trusts as volatility to the unit price and failed to refer to other main risks, including liquidity risk;
- in verbally explaining his recommendations to the trustees in 2006 and 2007 to invest 50 per cent of their investment capital in unlisted property trusts, the member diluted the risk of illiquidity by placing too high an emphasis on the 'ability to offer periodic withdrawals' and insufficient emphasis on the disclosure in the PDSs that the recommended trusts' funds offered only limited withdrawals or had no withdrawal rights, and that investors may not be able to sell or redeem their capital promptly or at all, as there is no secondary market; and
- in verbally explaining his recommendations to the trustees in 2006 and 2007 to invest 50 per cent of their investment capital in unlisted property trusts, the member conveyed that 'low risk to capital' is one of the characteristics of unlisted property trusts. Low risk to capital is not a characteristic of unlisted property trusts.

One of the objects of the FPA Professional Accountability framework is to ensure that members engage with their professional obligations and understand, accept and learn from non-compliance with the Code. The Chair of the CRC was satisfied that this had occurred in this instance. Factors that were considered by the FPA and member when agreeing to suitable sanctions included:

1. the member had engaged in a constructive and genuine manner with the FPA during the investigation process and demonstrated contrition;
2. the member had acknowledged breaches of professional obligations;
3. the absence of any sinister motivation;
4. the member's disciplinary record;
5. the length of time since the conduct; and
6. the trustees had been compensated.

Accordingly, the FPA reached agreement with the member on the following sanctions:

1. the member was reprimanded and fined $1,500 for each breach;
2. the member was required to successfully complete CFP 1: the FPA Professionalism unit of the CFP® Certification Program (Semester 1 or 2, 2015); and
3. the member was required to complete the e-learning module for the FPA Code of Professional Practice (by 31 March 2015)

Conclusion

The (former) member subject of Case 1 is no longer a member of the FPA. Due to the member's non co-operation, no finding was possible in respect to the substance of the FPA complaint.

In contrast, the member subject of Case 2 remains a member of the FPA after demonstrating a desire and capacity to continue as a professional planner and member of the FPA. The member promptly satisfied sanctions one and three, and set out to satisfy sanction two.

Taking care of your clients

Aged care is a complex topic which requires good management and planning to avoid unexpected financial implications for retirees.

If your clients are heading into retirement, or living in retirement, it's good to know what to expect if they need to enter an aged care arrangement in the future.

The Australian Government subsidises the bulk of aged care services in Australia, but your client may be asked to contribute towards the cost of their care if the means test or income test assesses them as being able to do so.

The department conducts means test assessments and income assessments for most people who are entering aged care, with the exception of those who are Department of Veterans' Affairs clients.

It's also important to talk about the different types of aged care arrangements, the three main types being the Commonwealth Home Support Programme (from 1 July 2015), Home Care Packages and Residential Care.

The Commonwealth Home Support Programme is a consolidated programme that provides entry-level home support for older people who need assistance with daily living to keep living independently at home and in their community. Carers of these clients will also benefit from services provided through the Commonwealth Home Support Programme.

Home Care Packages support people to live in their own home and are funded by the Australian Government through the Home Care Packages Program. Everyone taking up a home care package can be asked to pay the basic daily fee for home care, which is up to 17.5 per cent of the single basic Age Pension. An additional contribution may be payable depending on the results of the income test.

In Home Care Packages, a person on income not greater than the maximum income of a full Age Pensioner, cannot be asked to pay any more than the basic daily fee. An income test will determine the contribution payable by others with income above this amount. Assets are not considered as part of this assessment.

Residential Care is accommodation and support for people who can no longer live at home; this is usually a nursing or aged care home. Everyone entering residential care can be asked to pay the basic daily fee, which is 85 per cent of the single basic Age Pension. Additional fees and charges may be payable depending on the outcome of the means test.

For someone entering residential care, the means test assesses your client's eligibility for government assistance with the cost of their residential aged care accommodation and determines the contribution they can make towards their care costs.

The means test looks at your client's combined income and assets. It is important to note, that unlike with the Age Pension, your client's principal home may be considered an asset for the purposes of the Residential Aged Care means test.

However, there are some parameters governing how the principal home is assessed.

The principal home can be exempt from the test if it is occupied by a 'protected person', who could be the care recipient's partner or a dependent child. This exemption ceases if the 'protected person' moves out of the principal home.

If the home is included as an asset, the value included is capped. As at 20 March 2015, the cap was $157,051.20. This means that the value of the home above this amount is disregarded for the purposes of the asset assessment.

The outcome of your client's income or means test assessment is considered valid for 120 days, unless there is a significant change in their circumstances. If your client is a member of a couple and both intend to enter into an aged care arrangement, they will both need to undergo the assessment.

Of course, if your client does not wish to seek Government assistance for their aged care arrangement, they do not have to undergo the assessment.

If aged care is something that may be on the cards for one of your clients, you can get an indication of the fees they may need to pay by using the online fee estimators.

The Home Care Fee Estimator can be found at myagedcare.gov.au/fee-estimator/home-care

The Residential Care Fee Estimator can be found at myagedcare.gov.au/fee-estimator/residential-care

It is important to remember that if your client's circumstances change, which include income or assets, this may lead to a change in the level of Government assistance your client is eligible for.

For more information on aged care, visit the myagedcare.gov.au website or call the My Aged Care phone line on 1800 200 422. Alternatively, you can contact the Department of Human Services regarding Aged Care Income Assessments on 1800 227 475.

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: 0418 111 224
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@fairfulls.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: gavinrundecfp@gmail.com

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) 8980 9300
E: serratt@afsnt.com.au

Western Australia

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

Tasmania

Todd Kennedy CFP®
Chairperson
T: 1300 651 600
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 4580
Email: fpa@fpa.asn.au
Web: www.fpa.asn.au

FPA Board

Chair
Neil Kendall CFP® (QLD)

Chief Executive Officer
Mark Rantall CFP®

Directors
Marisa Broome CFP® (NSW)
Matthew Brown CFP® (QLD)
Bruce Foy (NSW)
Julie Matheson CFP® (WA)
Delma Newton CFP® (QLD)
Peter O'Toole CFP® (VIC)
Philip Pledge (SA)

Board Committees

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