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Financial Planning

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Time efficiency

Cameron McAusland CFP® on how to better manage the time spent in and on a business

PP100007614

**THIS ISSUE: Australian equities / Dealing with mental health
Budget 2015-16 / Family trusts / Duty of disclosure**

Leveraged™
The professional's choice

Gearing: It's not for everyone.

Gearing an investment portfolio remains a legitimate wealth creation strategy, but it's not for everyone.

For some investors, gearing is the right strategy to create wealth and achieve their financial goals. If you haven't had a gearing conversation recently with your wealth accumulator clients, are you providing holistic advice and acting in their best interests?

We can help you to identify and understand the triggers to listen for from your clients, and learn ways to mitigate risk through our advanced portfolio monitoring tools. Ask us about our client nominated "target gearing" alerts.

Join us as Leveraged Senior Manager, Technical Research, Julie McKay guides you in how you can offer innovative options and solutions to your clients, and enhance the quality of your advice.

Who should come to this webinar?

Financial planners and stockbrokers who are looking to offer holistic advice to their younger to middle-aged clients.

Tuesday 7 July | 12:00 - 1:00pm Sydney time

1.5 CPD points

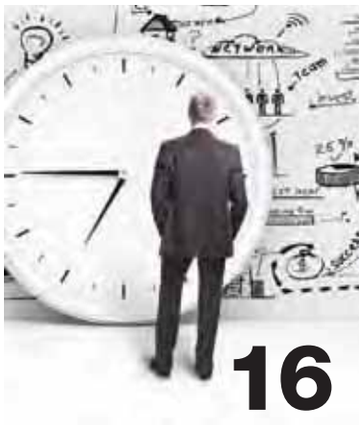
Places are strictly limited so register now by emailing **rsvpevents@bendigoadelaide.com.au**

leveraged.com.au

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

Contents

June 2015



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Turning the tide, one by one

The past months have been a rollercoaster of emotions for our profession. It can sometimes feel as though we take one step forwards and two steps back.

Whilst I wholeheartedly believe that our profession is on its way to widespread recognition and respect, it's hard not to feel deflated by the ongoing negative press.

The fact is, there will always be those who feel it helpful to denigrate our profession, or impart their uninformed opinion. It is therefore important we remember that whilst many things sit outside our control, there is plenty we can control.

Lead by example

We can control the way we talk to those around us. We can control the way we talk about our peers, the way we interact with our local communities and how we lead by example.

The Future2 Foundation is a great channel for this, and together we proudly raised $267,000 for community projects around Australia.

By providing clients with an outstanding experience, they will want to tell their friends and family about how you have served them well. There is nothing more powerful than word-of-mouth, and the more we create it, the more we start to dissipate negativity. By doing this, we also empower the public to make their own judgements about our profession, rather than take on the judgement printed in the media.

Talk to your local MP

Locally, FPA members can be a powerful voice for the profession, clearly articulating the facts and the measures that will help progress it. By supporting the higher education and professional standards in the PJC Inquiry and talking to your local MP, you can play a pivotal part in securing a better financial future for Australia.

We have recently developed a toolkit to help you reach out to your local MP on behalf of our community.

If you haven't seen it yet, drop us a line.

Demonstrate your credentials

As an FPA member, you commit to high professional standards. Be sure to let your clients know what being an FPA member means for them. If you're an FPA Professional Practice, tell your clients.

If you're a CERTIFIED FINANCIAL PLANNER® professional, make sure you leverage our recent advertising campaign. The new CFP practitioner email signature is a simple way to tell potential clients about your credentials. It will also help create continuity with consumers that have already seen the advertising campaign. A campaign toolkit is available in the Member Centre at www.fpa.asn.au and we have also produced a consumer brochure which is available for order.

One by one, let's work together to capture the hearts and minds of those who need financial advice.

Enjoy this edition.

Mark Rantall CFP®
Chief Executive Officer

As an FPA member, you commit to high professional standards. Be sure to let your clients know what being an FPA member means for them.

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

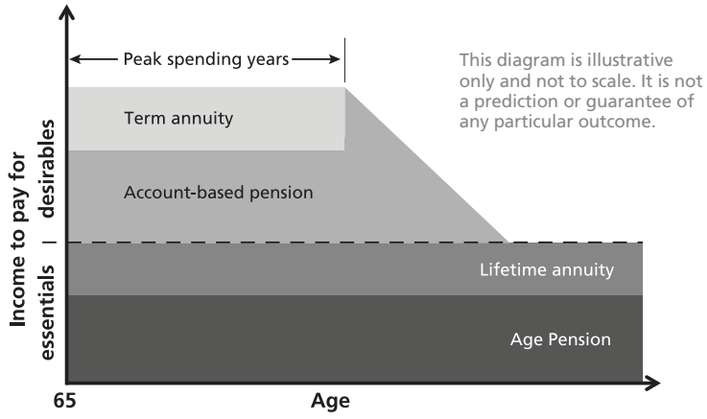
The starting point is to understand the client's retirement goals and lifestyle and to forecast the income they'll need to fund this retirement. Explain how their spending will be grouped into 'essentials', to cover the cost of living for things like food and bills, and 'desirables', to cover holidays,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

Assess any Centrelink entitlement

Employ all available strategies to get the most from the Age Pension. These predictable payments may provide some inflation protection and last the life of an eligible pensioner. This regular and known income can form the first layer, the 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 617 financial planners

challenger

18157/0515

Shaping futures: Congress registration now open

Registrations for this year's FPA Professionals Congress in Brisbane (18-20 November 2015) are now open. Early registration will allow you to benefit from financial year tax savings, as well as first choice of workshops when they are released.

'Shaping futures' is the theme of this year's Congress.

Each of us is empowered to shape the future in many important ways. Shaping futures is what financial planners do, helping clients realise their dreams and providing them with financial security and peace-of-mind.

The financial planning profession is transforming. The FPA and its members are playing a critical role in this transformation by shaping its future through our combined commitment to the highest professional standards.

And FPA members shape their own futures by creating successful and resilient financial planning businesses that provide exceptional client service.

This year's Congress is about ways to shape the future in a powerful and positive way.

The 2015 program will include inspiring speakers, insightful workshops, opportunities to learn and network.

For more information, go to fpacongress.com.au

10thousandgirl partnership

The FPA has partnered with not-for-profit social enterprise 10thousandgirl on its 2015-17 Regional Women's Financial Literacy Project.

Over this two year period, the project will include 16 regional workshops, 12 webinars and a downloadable toolkit with resources for women living in regional communities.

10thousandgirl aims to improve the financial wellbeing of women and families across Australia. Through this partnership, the FPA will promote the value of advice and introduce leading financial planners to women who are in need of good advice.

The FPA is subsidising 20 FPA practitioner members to play an active part in this initiative by becoming a 10thousandgirl Trusted Adviser.

The following are some of the benefits of being a Trusted Adviser:

- An opportunity to be a workshop panellist and provide promotional material at the event.
- A listing in the online directory of Australia's Top 100 Trusted Advisers For Women.
- An opportunity for women to register for a 'coffee catch up' with you.
- One written, audio or video interview per year, and up to six blogs and social media posts circulated through the 10thousandgirl network.
- Use of the 10thousandgirl 'supporter' banners on your email signature and website.

The project covers many areas of personal finance, including understanding debt and credit, how to do an insurance audit, minimising tax, understanding and maximising super, developing wills, and investing in shares and property.

This program is open to CFP® professionals and Financial Planner AFP® members. To register your interest, contact: tina@10thousandgirl.com

Final month for National Roadshow

This year's annual FPA National Roadshow is now into its final month, having kicked off in Geelong on 27 April, with high numbers having attended the April and May roadshows.

The roadshow will visit a total of 33 locations, providing members with an update on FoFA, the FSI Report and the PJC Inquiry.

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

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

Save the date*

1 June
Hobart – 12pm-2pm

2 June
ACT (Canberra) – 12pm-2pm

Townsville – 7:30am-9:30am

3 June
Mackay – 7:30am-9:30am

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

Rockhampton – 7:30am-9:30am

5 June
Wide Bay – 7:30am-9:30am

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

Gold Coast – 12:30pm-2:30pm

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

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

16 June
Cairns – 7:30am-9:30am

Riverina (Wagga Wagga) – 12pm-2pm

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

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

Newcastle – 12pm-2pm

19 June
Gippsland – 12pm-2pm

23 June
Sunraysia – 7:30am-9:30am

Wollongong – 12pm-2pm

** Breakfast or lunch is included.*

2015 Wheel Classic heads to Brisbane

Registrations are now open for cyclists wanting to participate in this year's Future2 Wheel Classic. The nine day route covers a distance of 1,132 kilometres, with cyclists able to choose to ride one of three options:

Stage 1: Sydney (Manly) to Armidale (4 days) – 10-13 November

Stage 2: Armidale to Brisbane (5 days) – 14-18 November

Whole ride: Sydney (Manly) to Brisbane (9 days) – 10-18 November.

The nine day route begins in Sydney (Manly) on 10 November and finishes in Brisbane on 18 November at the FPA Professionals Congress.

The route will take cyclists from Sydney to Maitland (a distance of 162km) on day one, then Maitland to Gloucester (122km), Gloucester to Walcha (140km), Walcha to Armidale (68km), Armidale to Inverell (126km), Inverell to Texas (128km), Texas to Warwick (146km), Warwick to Toowoomba (90km), and from Toowoomba to Brisbane (150km) on the final day.

The registration covers the cost of food, accommodation, support vehicles, third party liability insurance and a Wheel Classic jersey. FPA members who register will receive a 10 per cent discount on the cost of attending the FPA Professionals Congress in Brisbane, 18-20 November.

By participating, each cyclist will undertake to raise at least $1,000 for Future2. Those who reach $3,000 may opt for a 50 per cent refund of the registration fee, or to make that amount a tax-deductible donation to Future2.

Now in its sixth year, the Future2 Wheel Classic has raised over $460,000 (after expenses) for the Future2 Make the Difference! Grants. These grants are provided to community not-for-profit groups that support disadvantaged young Australians.

Last year's 2014 Wheel Classic ride from Melbourne to Adelaide raised over $141,000.

For more information on this year's Wheel Classic, go to: www.future2foundation.org.au/events/wheelclassic

Training the CreditSmart way

The Australian Retail Credit Association offers industry education programs and resources to help planners better understand changes to Australia's credit reporting system, writes Damian Paull.

In March last year, a number of changes were made to Australia's credit reporting system, paving the way towards the introduction of comprehensive credit reporting.

As financial planners and trusted advisers, your clients rely on you to provide relevant information about what impact the information on their credit report may have on their financial situation.

Based on their interactions with the negative reporting system, we have found that many planners consider credit reporting is for a niche market, with limited relevance to clients who they see as more financially literate or well-off, and therefore unlikely to have damaging information on their credit report.

With the introduction of comprehensive credit reporting, the reality will soon be quite different. Understanding the credit reporting system will become important for all Australians, as credit reports will include information about a consumer's credit products and whether payments are being made on time, as well as the negative information which was previously available.

Traditionally, most consumers only became aware of their credit record when they were declined credit, perhaps because of a default on their credit report.

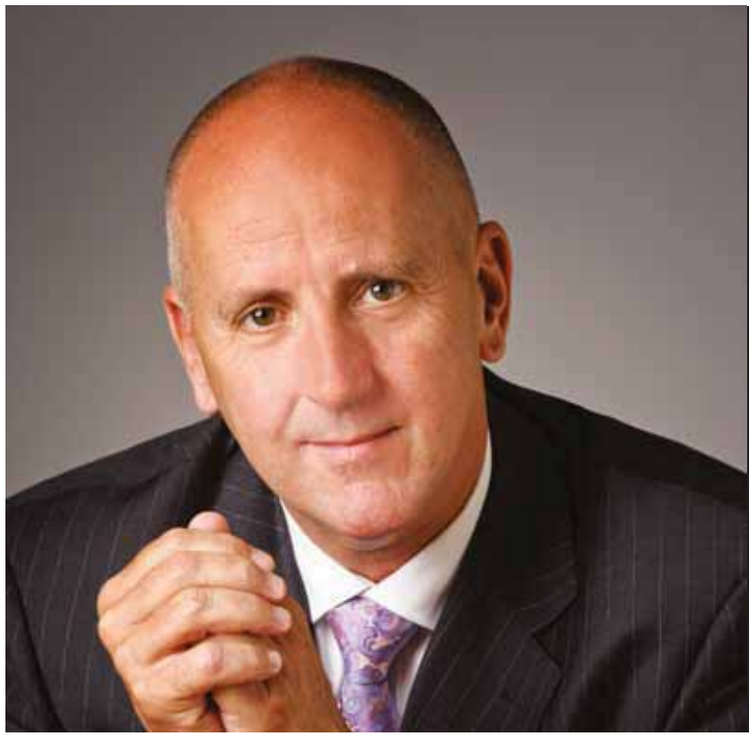
However, this is steadily changing and we hope planners will join with the Australian Retail Credit Association (ARCA) – the peak body for retail credit providers and credit reporting bodies – to help consumers understand and take control of their credit reports, ensuring that when they need credit, they are creditworthy.

For planners, understanding what information is held on a consumer's credit report can provide a pathway for negotiating better payment terms for a client, or alternatively, providing advice about what steps a client can take to improve their payment behaviour.

The reforms are designed to improve not only the credit reporting system and the availability of credit, but also Australia's overall financial stability.

However, as the changes to credit reporting have been quite extensive but rolled-out progressively, there is still an element of confusion and uncertainty for both industry professionals and consumers around the implications of the new system.

For the industry, ARCA hosts a number of events and seminars, and provides resources to help planners understand the changes and enable them to better explain these changes to their clients.



"The reforms are designed to improve not only the credit reporting system and the availability of credit, but also Australia's overall financial stability."

ARCA also offers online training programs to financial professionals in partnership with Kaplan Professional. The CreditSmart self-paced online training program focuses on consumers' new rights and obligations under comprehensive credit reporting and supports financial intermediaries to provide consumer education. The course is open for enrolments from May this year.

For consumers, ARCA has developed CreditSmart (www.creditsmart.org.au), an award-winning and unbiased educational website supported by ARCA's members with endorsement by regulators and consumer advocates.

CreditSmart.org.au outlines the changes to credit reporting in Australia and what they mean. For example, how consumers can access a free copy of their credit report, how they can understand their report and request correction of any errors, free of charge.

For more information, go to www.creditsmart.org.au

Damian Paull is the chief executive officer of the Australian Retail Credit Association (ARCA) – the peak body for retail credit providers and credit reporting bodies.

ADVISER USE ONLY

HELPING MORE AUSTRALIANS

BE READY FOR NEXT

More Australians are retiring than ever before. For many it's a complex journey, but one thing is certain: retirement is changing. People are no longer just fading into retirement – they are getting ready for what's next. Therefore financial advice can play an increasingly important role in this journey.

BE READY FOR SOLUTIONS

Our innovation and platform enhancements aim to provide solutions so you and your clients are ready for what's next. As Australia's largest provider of account based pensions, we are continually building retirement solutions to help meet more clients' needs – including income, growth, capital preservation and longevity.

Our solutions, including annuities via platform, are all designed to help give your clients the peace of mind and confidence they're looking for throughout their retirement journey.

BE READY WITH COLONIAL FIRST STATE

As Australia's largest provider of retirement solutions^, Colonial First State is more committed than ever to the value of advice. We are dedicated to working together with advisers – helping to grow business, retain clients, maximise efficiency, and most importantly, helping more Australians be ready for next.

Be ready for next with Colonial First State. Talk to your BDM today.

colonialfirststate.com.au/together

SOLUTIONS TOGETHER

Colonial First State

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The rise of robo-advice

Q: With the introduction of robo-advice, is this an opportunity or threat for the financial planning profession?

Wayne Leggett CFP®

Principal, Paramount Wealth Management

Licensee: Fortnum Financial Advisers

The answer to this question is that it can be either, depending on your current value proposition.

It has always puzzled me that so many advisers have promoted their real value as being their ability to match their clients with what is 'on the shelf', when what clients perceive as the value in having an adviser is our skill and expertise in helping them establish and manage financial priorities, objectives and timeframes.

If your offer to existing and prospective clients emphasises your 'skills' at selecting 'products' for clients, whether that consists of constructing risk or investment portfolios, or even both, the bad news is that you won't be in business too far into the future.

I say this because clients of today can get this 'advice' very efficiently online at a fraction of the price they would be paying you. Admittedly, not all will elect to do this, but an increasing number will.

If, however, your value proposition is based on helping clients establish financial priorities and objectives and assisting them in achieving those objectives in an appropriate timeframe, with a service that does not focus on, but still includes product selection and blending, then the online offerings that are commonly referred to collectively as 'robo-advice' will actually add value to your business.

This is because where you or your staff may have done many of these functions manually in the past, these new online capabilities mean these tasks can be undertaken more quickly and efficiently, leading to greater business profitability. What's more, if the added efficiency improves business turnaround times, this may result in greater client satisfaction.

Charles Badenach CFP®

Principal and Private Client Adviser, Main Street Financial Solutions

Licensee: Lonsdale Financial Group

The world is changing quickly and the introduction of robo-advice represents both a threat and an opportunity, depending on how you position your business going forward.

It will without doubt revolutionise those attempting to serve the 'mass market', lowering costs, reducing the need for human interaction and creating generic investment solutions for this segment.

As currently occurs in a number of other countries already, robo-advice will allow investors to simply log into a website, answer an online questionnaire, which will then determine their risk profile, investment horizon and objectives. The computer generated algorithm will then develop an investment portfolio on behalf of the client.

Robo-advice will be a disrupter for the industry and in my view, is likely to have a similar impact as online broking had to the industry in the late 1990s.

Robo-advice is likely to appeal to younger, time poor, tech savvy, and cost conscious investors. A robo adviser will also make advice scalable and affordable to many who cannot otherwise afford to engage the services of a human adviser. As an example, Wealthfront – a large robo-adviser in the United States – raised more than $1 billion in its first two and a half years of operation.

Despite this, there will still be a large portion of the population who would prefer to use a CERTIFIED FINANCIAL PLANNER® practitioner to access financial advice. Like most other service industries in the developed world, the financial planning industry faces a constant challenge to continually refine and develop the client value proposition, so that we remain the key adviser for our clients' affairs.

In my view, the adviser of the future will have a transparent and well-documented service offering, specialising in a particular area or niche, with fewer clients but with stronger personal relationships with those clients. Relationships that are trusted, established and have ongoing personal engagement cannot be replaced with technology.

The future is here, so get ready.

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

Susie Erratt CFP®

Authorised Representative, All Financial Services

Licensee: Charter Financial Planning

I see robo-advice more as an opportunity, but I don't think the change is as great as the marketers would have you believe.

Most platforms are web-based and we have clients who do their own trading with or without a broker now.

Financial planning is about trust and relationships, so I don't think I will become redundant to the internet.

The opportunity for planners is that we now have a new way to engage with clients, who may have otherwise been disengaged.

Daryl La'Brooy CFP®

Financial Adviser, Hillross Financial Services

Licensee: Hillross Financial Services

The sad reality is that the vast majority of Australians don't obtain financial advice. Yet as a nation, Australians are severely under-insured, largely underfunded for retirement and are carrying very high levels of personal debt. Many Australians turn to the internet for information and it's no surprise that a business model catering to those consumers in the advice space has now emerged.

If consumers use robo-advice and are better off as a consequence, then it's a great outcome for them and better than not seeking advice and ending up poorer by avoiding help.

From the financial planning profession perspective, we have to deal with it. The advice market is largely untapped, with millions of Australians not seeking advice. So it's unlikely that robo-advice will scoop up all the unadvised Australians.

A great way to stay ahead of robo-advice is to ensure that your advice offering is different from that offered on the internet. I'm a firm believer that a segment of the population value face-to-face contact and is prepared to pay for this. So, that's the segment of the market we need to cater for.

In time, robo-advice may become more sophisticated but it appears at the current point in time, it's fairly simple. The trick is to stay ahead of the competition. To use Seth Godin's advice: "You need to become the purple cow in a sea of beige businesses."

For example, in our business, we always try and go the extra mile for our clients by referring them to our trusted third-party network to check on things like their general insurance needs. Will robo-advice do this?

We also understand our clients intimately, so we know who their children and grandchildren are, as well as their hobbies. The better we understand them, the more we can do for them and their families. The more we do for them, the less likely they are to leave us for a new competitor.

So, advisers who do purely what robo-advice does may be threatened, while those of us who go the extra mile and stay ahead of competitors, continue to serve people who sincerely appreciate what we do for them.

Nataliya Denisov CFP®

Financial Adviser, Rise Standards - Brougham & Vaux

Licensee: Brougham & Vaux

To my understanding, robo-advice provides an automated portfolio management service without any involvement in the personal aspects of a client's needs and circumstances.

The key to a 'human financial adviser' is the personalised approach where we take a great degree of understanding of our client's needs and circumstances; as a result of which our recommendations are tailored to each client.

When I provide advice to my clients, I make it suitable to their situation and lifestyle objectives. I'm also aware of any upcoming changes to their circumstances, so that we can plan for it and ultimately set up a client's investment portfolio in the way that it accommodates not only current, but also future needs.

Continued on p12

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

Another aspect of financial advice is that it connects all areas of wealth accumulation, protection and management. By ignoring a lot of personal data and purely focusing on numbers, robo-advisers may assist a certain niche of investors but certainly not the majority of the general public who, in fact, would gain greater benefit by seeing a financial planner.

To add further, clients who I see won't be comfortable with a robo-advice offering due to the lack of knowledge in relation to investing and most importantly, the need for regular conversations and discussions.

In my opinion, a robo-adviser is suitable to someone who doesn't seek financial planning advice but instead, needs a platform that prompts the investor on potential gains and losses. Therefore, I see it more of a threat to the stockbroking industry rather than to the financial planning profession.

David Woolford CFP®
Wealth Adviser, Collins SBA
Licensee: Godfrey Pembroke

Robo-advice is set to enter the Australian financial planning industry and disrupt the status quo, just as we've seen in the US over the preceding 12 months. Whether it presents a threat or an opportunity to your business will depend on your service offering, but I believe for the industry as a whole, this offers a great opportunity.

The *2015 Automated Investment Advisors Global Market Review* highlighted that robo-advice was popular with young investors with up to $80,000 to invest, but it's also been a popular investment area for experienced investors aged over 60 who have significant wealth. This, coupled with the fact that Australians on the whole don't seek financial advice at the same rate compared to countries like the US, shows that there is a tremendous opportunity to expand your offer.

The threat will come to those advisers and businesses representing themselves as investment specialists only, as investment advice will be more transparent for a much lower cost through a robo-advice platform.

The opportunity lies with open-minded businesses that seek to take advantage of change. Robo-advice could prove to be a highly profitable way to generate new low touch business and to take advantage of an investment space for clients who aren't seeking holistic advice at this time.

As we have seen in the US, there will be a large number of robo-advice providers in the market, so there is no need to reinvent the wheel. White paper offers can be tailored to your business and used to make the most of this new investment space, with the ability to provide additional advice once clients are ready.

Robo-advice will be here to stay and I think it's a positive step for the financial planning profession.

The ability to provide transparent and cost-effective solutions will allow advisers to focus on providing strategic goal-based advice by distancing the industry from the antiquated and media scrutinised investment-only advice offering.

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

Unlisted Property Fund Opportunity

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8.50%* p.a.

growing to 8.75%* p.a. in year 2

Average unexpired lease term of

11.0 years

providing long-term income security

Offer Summary

Offer size (equity)	$64.48 million
Offer closes	26 June 2015#
Minimum investment	$50,000

Forecast Distributions

Year to June	2016*	2017*
Forecast distribution	8.50%	8.75%
Forecast tax deferral	100%	100%
Distribution payments	Quarterly	

Investment Rationale

- Weighted Average Lease Expiry (WALE) of 11.0 years provides long-term income security
- High quality tenant profile including Seven West Media Group and the NSW State Government
- Located only ~2.5km from the Sydney CBD in an emerging business precinct
- Modern asset with low forecast capital expenditure requirements

To express your interest and receive the Product Disclosure Statement visit: www.centuria.com.au or call Brad Watson on (02) 8923 8923

* Forecasts are subject to assumptions and risks that are set out in full in the PDS. Forecasts are not guaranteed. An investment in the Fund is subject to risk.
# Or earlier if fully subscribed.

Budget 2015-16
Small business relief

On 12 May, Treasurer Joe Hockey handed down his second Budget. Small business was the big winner, as the Government focuses on encouraging small business to re-stimulate the economy and aid in repairing the Budget deficit. But changes to the asset test thesholds and taper rate is disconcerting for many retirees. The following are some of the key announcements made in the 2015-16 Budget.

Taxation

Small business
The Government will provide a 1.5 per cent tax cut for all small businesses with an aggregated annual turnover of less than $2 million. This will reduce the company tax rate for small businesses from 30 per cent to 28.5 per cent, effective from 1 July 2015. Companies with higher turnover will continue to pay 30 per cent tax.

Individual tax payers (sole-traders and partners within a partnership) with an unincorporated business that has an aggregated annual turnover of less than $2 million will be eligible for a small business tax discount. The discount will be 5 per cent of the incomwe tax payable on the business income received and will be capped at $1,000 per individual per year. The discount will be delivered as a tax offset.

Professional expenses
New small businesses will be able to immediately deduct a range of professional expenses incurred when setting up. This includes professional, legal and accounting advice from the 2015-16 financial year. This measure replaces the existing rule which requires writing expenses off over five years.

Immediate deduction
The Government has announced that small businesses will be able to immediately claim deductions for business assets that cost less than $20,000. These assets are not required to be depreciated over time. This measure is effective for purchases made from 13 May 2015 to 30 June 2017 on business assets acquired and installed ready for use during this period.

"A welcome initiative of the Budget is the $5.5 billion Growing Jobs and Small Business package, which is aimed at supporting small businesses so they can invest and grow more," said FPA General Manager, Policy and Conduct, Dante De Gori. "This package will assist financial planners and consumers alike. Financial planners are often small business operators themselves and they also provide advice to many Australians who run their own business or are seeking to start up their own business."

De Gori added that the reduction in the company tax rate and a 5 per cent discount for sole traders, along with an immediate tax deduction for items purchased for under $20,000, was a positive initiative by the Government for small business.

Temporary working holidays
People who are temporarily in Australia on a working holiday will be treated as non-residents for tax purposes, regardless of how long they remain in Australia.

Under the new proposals, working holiday makers will all be taxed as non-residents and pay 32.5 per cent from their first dollar of income up to $80,000. Higher levels of income are taxed at 37 per cent or 47 per cent as applicable.

Zone Tax Offset
The Zone Tax Offset provides a tax concession for people living or working in remote areas due to the higher associated costs of living. Eligibility is based on defined geographic locations.

Effective from 1 July 1015, workers classified as 'fly-in, fly-out' and 'drive in, drive out' workers will lose their eligibility for the Zone Tax Offset if their normal residence is not within a prescribed zone.

Superannuation

The Government announced no adverse changes to superannuation. However, it did make an announcement on terminal illness.

The Government will extend access to superannuation for people with a terminal medical condition from 12 to 24 months. The process of requiring two medical practitioner certificates, including one from a specialist, and the tax-free treatment of funds accessed from super under this condition will remain unchanged.

Social security

Asset test changes
The Government has proposed changes to the asset test thresholds and taper rate, which is likely to reduce the rate of pension currently paid to many part-pensioners.

Pension entitlements are currently reduced by $1.50 for every $1,000 of assessable assets above the asset test threshold. This taper rate is proposed to increase back to $3.00 from 1 January 2017, which will significantly lower the asset test cut-off thresholds.

To ensure the taper rate does not adversely affect clients with lower levels of assets, the lower asset test thresholds (under which

a full pension is payable) will be increased. The proposed changes to the asset test thresholds are shown in Table 1.

Clients with assets above the following thresholds are likely to experience pension reductions due to the asset test changes:

- Single homeowners with assessable assets over $289,500.
- Single non-homeowner with assessable assets over $537,000.
- Homeowner couple with assessable assets over $451,500.
- Non-homeowner couple with assessable assets over $699,000.

Clients who lose their pensions due to the reduction in cut-off thresholds will lose access to the Pension Concession Card, but will continue to receive a Commonwealth Health Seniors Card (CSHC) or Health Care Card (HCC) to retain pharmaceutical concessions.

Income test changes for defined benefit pensions

Effective from 1 January 2016, clients who have defined benefit pensions paid from a public sector or corporate defined benefit superannuation fund will have the deductible amount capped at 10 per cent of pension payments. This may increase the amount of income assessable under the Centrelink income test.

The changes will not impact Veterans' Affairs pensions and/or defined benefit income streams paid under defence force superannuation funds.

Child care changes

From 1 July 2017, a new Child Care Subsidy (CCS) will replace the existing: Child Care Benefit; Child Care Rebate; and Jobs, Education and Training Child Care Fee Assistance. A new nanny subsidy trial program will also commence from 1 January 2016.

The CCS will be payable to parents who are working, looking for work training, studying or other recognised activities, such as volunteering. The aim of the CCS is to help cover some of the out-of-pocket expenses of child care. To be eligible for the CCS, children will need to attend an approved child care service and be immunised.

The subsidy is paid directly to the child care providers, so parents are only required to pay the additional cost. The subsidy is paid as a percentage of the actual fee up to a maximum hourly fee cap. The percentage payable depends on family income as follows:

- 85 per cent of fees paid (up to an hourly fee cap) for families with annual income under $65,000.
- The rate tapers to 50 per cent of fees paid (up to an hourly fee cap) for families with annual income between $65,000 and $170,000.
- 50 per cent of fees paid (up to an hourly fee cap) for families with an annual income over $170,000, but if the income is $185,000 or more, this will be capped at a total subsidy of $10,000 per year (up from the current cap of $7,500).

Paid Parental Leave

From 1 July 2016, parents will no longer be able to claim the Paid Parental Leave (PPL) from the Government if they also receive any employer-provided parental leave entitlements. However, if the employer scheme is less generous than the 18 weeks of Government funded PPL (which is paid at the national minimum wage), then top-ups will be available from the Government scheme.

Family Tax Benefit Part A

A number of changes are proposed to the Family Tax Benefit Part A. These include:

- The Part A Large Family Supplement will be abolished, so that families receive just a per child rate from 1 July 2016.
- In any 12-month period, FTB Part A will only be paid during overseas travel up to six weeks in total. This change is effective from 1 January 2016.

Aged care

Asset testing for the pension

The change to the assets test assessment for pensions may have a flow-on effect to aged care.

Clients who lose eligibility for the Age Pension (due to assets test changes) may find that their means-tested amount reduces to the lower assessable income, resulting in a lower means-tested fee. However, they may also have less income to help cover their fees, putting pressure on cashflow.

"One other trick to note," says Aged Care Steps director, Louise Biti, "is that if the Age Pension is lost, clients will lose any grandfathering that kept existing account-based pensions under deductible amount rules. If their account-based pensions move to deeming rules, this may increase their assessable income and result in higher means-tested fees in aged care."

Removal of the rental income exemption

A strategy used in aged care is to rent the former home and ensure that some of the accommodation payment is paid as a daily accommodation payment (DAP).

The benefit of this strategy is an indefinite Centrelink/Veterans' Affairs assessment as a homeowner and exemption for the home when determining pension eligibility. In addition, the rental income received is not assessable, which reduces the means-tested fee and also helps to maximise pension entitlements.

However, it is proposed that the rental income exemption will not apply to residents who move into aged care from 1 January 2016. These residents will have the rental income included as assessable income when determining means-tested care fees, even if they are paying some DAP and the home will continue to have an asset value up to the capped amount.

Residents who move into residential care before 1 January 2016 will still qualify for the exemption on rental income, if a DAP is paid.

The income exemption will continue to apply for the Centrelink/Veterans' Affairs income test for residents.

For more information on the Budget, go to **www.budget.gov.au/2015-16/index.htm**

Financial Planning acknowledges both the FPA and StrategySteps/Age Care Steps for help with this Budget analysis.

Table 1: Asset test thresholds

	Lower threshold (full pension)		Cut-off threshold (no pension payable)	
	Current	**Proposed**	**Current**	**Proposed**
Single homeowner	$202,000	$250,000	$775,500	$547,000
Single non-homeowner	$348,500	$450,000	$922,000	$747,000
Couple homeowner	$286,500	$375,000	$1,151,500	$823,000
Couple non-homeowner	$433,000	$575,000	$1,298,000	$1,023,000

Out of time

With only 168 hours in each week, there never seems to be enough hours in the day to get everything done. But effectively managing the time available is vital for a productive and profitable practice.

Everyone tries to squeeze the most from their working week, but there never seems to be enough hours in the day.

Whether it's too much paperwork, ever-changing regulatory requirements or demanding clients, the idea of being in control and having a work/life balance sounds like a bad joke to most practice owners.

In fact, a recent US report by the FPA's Research & Practice Institute (RPI), *Doing More With Less*, found only 13 per cent of planners feel they are in complete control of their time and only 10 per cent in complete control of their businesses. Over half the 750 planners participating in the study reported feeling out of control.

The report found planners perceive the greatest obstacles to increasing their productivity are: trying to do too much (36 per cent), the increased administrative burden (31 per cent), and procrastination (30 per cent).

Sue Viskovic CFP®, founder of Elixir Consulting, agrees time management is a significant problem in many practices: "Financial planners struggle with this issue."

With only 168 hours in each week, effectively managing the time available is vital for a productive and profitable practice. Planners who feel somewhat or completely in control of their time and their business manage to hold an additional 50 client, 10 prospect and five centre-of-influence meetings annually.

Strategic focus brings control

The key to a greater sense of control is a clear strategic focus, effective infrastructure and a focus on personal efficiency.

The RPI study found planners with clearly defined business goals (68 per cent) and personal goals (59 per cent) are much more likely to feel in control.

Seaview Consulting director, David Fotheringham, believes time spent clarifying where the practice is heading is vital to improving productivity and time management.

"The thinking that goes on beforehand is much more important than any time management tool," he says.

"Before jumping into implementing productivity solutions, the business must first understand why it is embarking on change and for what purpose."

The entire team also needs to be on board. "You need to get staff involved in making changes if they are to succeed. You need to say you want to get them doing more interesting things," Fotheringham says.

This in turn allows the practice owner to spend more time on high value activities. "Where value and margin are added is the area where you need to focus. You need to stop doing administrative activities and move to the higher profit margin space."

Using strategic infrastructure

In addition to a clear vision, planners with a strong infrastructure (team, process and technology) are more likely to feel in control. The RPI study found 51 per cent of planners believe clearly defined or standardised processes is the best way to improve efficiency, followed by better delegation (47 per cent) and better scheduling (38 per cent).

These structural productivity elements underpin higher productivity. The report notes: "It will not matter how personally efficient an adviser is, if the business model itself is not operating efficiently."

In fact, simple workflow changes can have a massive impact on productivity.

"Use a work-in-progress (WIP) system and ensure everyone buys into it. It can be simple – even a tracking spreadsheet – and keep it on a shared drive where everyone notes their progress on various activities and who has responsibility," Viskovic suggests.

"Then hold quick, regular WIP meetings, so everyone knows where projects are up to. These can even be done as a standing meeting."

This ensures everyone goes to a single location – ideally the practice's advice software – to check on projects. "That means everyone knows who is doing what, and where everyone is up to. It is a very powerful tool," she says.

Joe Stephan CFP®, director at Stephan Strategic in Melbourne's Kew, advocates the development of a 'business system'. "Create a series of linked internet pages detailing process, timeframe and responsibility. Staff members should have accessibility and editing rights to their assigned process."

He uses a simple structure to implement process improvements. "We have an email account dedicated to service delivery ideas and efficiency suggestions. We review this email periodically and make decisions on whether a process should remain unchanged, amended or completely overhauled."

Effective delegation is also vital to ensuring time is devoted to the most profitable activities. In 2010, CapGemini found only 67 per cent of a planner's time is allocated to client facing activities, with 29 per cent spent on operational and administrative activities.

According to Greg Tindall CFP®, a senior wealth adviser with Macquarie's Noosaville practice, getting staff involved is essential.

"The ongoing cycle of client appointments and then recording detailed file notes, takes considerable time out of the day, so it is important all support staff have a clear understanding of their administrative tasks," he says.

"To maintain a high level of productivity, it is also critical

Continued on p18

"We have seen a marked improvement in our productivity by giving the technology the respect it deserves."

Cameron McAusland CFP®

to have a disciplined process for client review meetings. We tailor a checklist of the specific documents needed for each client at their review meeting. All documents are stored online and previously captured information is always easily accessible."

Using technology tools

Carefully chosen technology can also make a big difference.

"Productive practices are using their software effectively, with systemised processes that move into a workflow system. This means you tick off each part of the project as it is completed and then it's automatically sent on to the next person," Viskovic explains.

"These systems take time to set up, but they are a huge time saver. Sometimes you need to stop chopping and sharpen the axe."

Fotheringham agrees practices need to embrace IT solutions to achieve major productivity benefits. "With technology, you can jump from here to here, because technology is repeatable, scalable and reliable – unlike humans."

Cameron McAusland CFP®, a principal and financial planner at MLC Advice in the Sydney suburb of Randwick, has seen the benefits firsthand.

"We have seen a marked improvement in our productivity by giving the technology the respect it deserves. By increasing training and understanding of the features of our IT system (Xplan), it has enabled our office to make better use of our time," he says.

"We will continue to develop our skills to enable us to keep improving our efficiency – which will flow through to profitability and revenue for the business."

Stephan is another fan of technology as a driver for better time management. "Non-relationship building functions should mostly be outsourced to technology where possible and where legally appropriate. An example of this is conducting a risk profile questioner online, rather than in a meeting."

However, new technologies need to be used the right way to get the most from their capabilities.

"You need to be consistent in how you use the apps and software. Make sure you use it the same way each time to make it effective. These tools are great, but it is how you use them that matters," Viskovic explains.

Boosting personal productivity

The final element in regaining control of your schedule is focusing on personal efficiency and creating a structure for each workday. The RPI report found planners who feel in control are more likely to follow a model day or week, time block their activities and use tools, such as time trackers.

10 ways to manage your time better

1. Create task lists and prioritise the tasks by importance, rather than urgency.

2. Maintain a time sheet for a week to rate your productivity and time usage.

3. Improve your control of emails and avoid constantly checking them.

4. Avoid procrastination, or use procrastination time to complete small tasks.

5. Set limits on distractions, such as social media.

6. Schedule routine client reviews and internal management meetings well ahead.

7. Do not overbook your schedule.

8. Set time frames for each task, reassess progress and delegate if necessary.

9. Use technology to complete quick tasks in small pockets of time between meetings.

10. Be prepared for meetings and have a clear outcome in mind before they start.

Fotheringham endorses this approach. "From a personal time management perspective, implementing a routine and sticking to it can result in the best return. Share your routine with staff and clients and have them assist you by understanding your work practices and availability."

He suggests allocating specific times throughout the day, week or month for regular tasks, such as reading journals, attending to emails, holding client meetings, or undertaking staff support activities. Even personal tasks, such as exercise and spending time with family and friends, should be planned into the schedule.

"Allocating some spare time to deal with the variety of life's little distractions is also an essential part of the time management process and work/life balance. It is about allocating time to specific tasks and always doing it at the same time," Fotheringham says.

According to leading US financial planning trainer and speaker, Bill Bachrach, successful planners are clear on the things they need to do, separating the necessary from the unnecessary, and focusing on things with a high payoff.

"They schedule a block of time to make follow-up phone calls, an hour to call clients just to check in, or find time to go for a run or hit the gym. This means more than just having it in your head that you will do something at 11 o'clock. It's an actual appointment you make with yourself, at a specific time, for more important activities," he says.

Viskovic agrees structuring your day is essential. "Use a list and mark off the most important things as they are done throughout the day. Then consolidate your list for the next day, so you start your day knowing what you need to do."

This ensures the key tasks get priority. "Ensure you are running your day, not just responding to what happens."

Limiting distractions and using self-discipline are also important.

"It's about focusing on the task and not getting distracted until it's done. Some people are very focused and process orientated, but not everyone is, so you need to self-reflect and determine what works for you," Fotheringham says.

"It may mean you need to hire a personal assistant to help keep you focused. For some people, that could pay for itself in a very short time."

Top 3 tips for personal productivity

***Financial Planning* asked CFP® practitioners and consultants for their top three tips on improving time management.**

Greg Tindall CFP®, senior wealth adviser, Macquarie Group

1. Maintain your personal health and fitness.
2. Schedule time in your diary for file notes.
3. Allow administrative staff to take ownership of tasks and trust them.

Cameron McAusland CFP®, principal, MLC Advice

1. Make a plan. It does not have to be fixed, but it needs to be documented, as it provides great focus.
2. Spend five to 10 minutes each night mentally preparing for the next day. Look at your diary and make a quick mental note of what meetings you have, what is required in each meeting and think of the best way to manage these meetings.
3. Keep up communication with all the stakeholders in your business. By updating them on the progress or possible delays, it enables you to put out any major 'fires' before they become big issues that take up more of your time.

Joe Stephan CFP®, director, Stephan Strategic

1. Mind map your tasks for the day.
2. Use an internet-based tasking system, such as WorkFlowy, which can act like a notepad with more flexibility and accountability.
3. Block out time, programs and interruptions to tackle tasks which are in the 'important', but 'non-critical' category.

Sue Viskovic CFP®, director, Elixir Consulting

1. Turn off your Outlook notification. It creates a break in concentration and this is a killer for focus and productivity.
2. Structure your schedule, so that for one day or two half days per week, you do not have appointments. Use this time to complete big ticket items, such as writing file notes, checking SOAs or planning. Blocking out time helps ensure these larger items get done.
3. Ensure you schedule time to take a 'big picture' view of the business. Use the time to complete activities like business planning or mapping out internal processes.

David Fotheringham, director, Seaview Consulting

1. Understand the value of the task you are doing and ask whether you should be doing it or delegating it to someone else.
2. Allocate time to specified activities. Establish a routine and stick to it.
3. Implement a mobile infrastructure. Install and utilise mobile applications to complete tasks.

Business focus

Cameron McAusland CFP® reveals some of the lessons learnt in the process of improving the productivity and profitability of his business.

MLC Advice principal, Cameron McAusland CFP®, is the first to admit he made some pretty ordinary rookie mistakes when he first began as a financial planner. Top of the list was trying to do everything himself. They were hard but necessary lessons.

Today, it's a different story, as McAusland has learnt to better manage the time spent in and on his business.

"One of the most important things you can do as a business owner is to regularly focus on and re-clarify where your business is heading. This can't be over-emphasised," he says.

For him, this means allocating time each week to focus on where the business is heading and ensuring that he remains on-track to meet the goals and objectives of the business.

"Taking time out of the business to focus on the business is a critical component in the success of any business," he says. "The importance of completing such a task can be the difference between business success and business failure."

Another important aspect for McAusland in the time management of his practice, is staff engagement in the aims and objectives of the business.

"In my opinion, it is crucial that you engage your staff and get them involved in the success of the business," he says. "I have found that most people want to participate and be rewarded in successful businesses, but that can only be done if they have a clear understanding of what the business is trying to achieve."

Trust and delegation is part of this staff engagement process, which ultimately helps him to better manage the time spent in and on the business.

"I have worked 60-70 hour weeks to make sure all tasks were being completed. In hindsight, it was foolish of me. By properly engaging staff, giving them certain responsibilities and asking for a similar commitment from my clients, this has resulted in a more efficient business and a happier and more relaxed business owner," he says. "Just ask my kids!"

McAusland uses a structured work-in-progress process through Xplan that operates through common threads and tasks that directs the next step of his business processes.

"All staff are aware of the processes at the click of a button and can immediately get access to a particular client file in order to get an update and determine what needs to be done or where things are at," he says. "We are flexible enough to make allowances when things become urgent or we need to prioritise things."

McAusland agrees that the success of any business relies on good time management processes. But he adds, managing one's work/life balance is equally as important.

"I run two diaries to ensure my work/life balance does not suffer. The home diary is my number one priority, with my kids' soccer training, dancing and netball the first entries. My work diary is open and flexible to meet the demands of running a small business.

"This was a shift I made 18 months ago and it has resulted in a greater focus on business when I'm at the desk, improved business efficiency, and increased revenues and profitability.

"But most of all," he says, "it's given me more hours to spend with my kids."

The winds of change

With the fading resources boom, investors must adjust to a new investment landscape. But as Janine Mace discovers, while the China story has yet to play out, new opportunities are appearing in the local market.

With China slowing and demand for our resources falling away as the commodities super cycle fades, the outlook for the Australian share market is pretty bleak – or so we're told.

Although this scenario makes a lot of sense after years of resources-driven rises, it is one that investment commentators believe does not convey the true outlook for local shares.

Stuart Rae, Alliance Bernstein's Asia ex-Japan Value Equities chief investment officer, thinks focusing on China's slowing economy is looking at only part of the picture when it comes to local shares.

"I think people should be careful about just automatically linking the slowing down of Chinese GDP growth and therefore the impact on the mining or the resources sector in Australia with a negative outlook for the China market. That would be naïve, in our view," he says.

"In fact, the slowdown in GDP is being connected with significant reforms in the Chinese economy, a rebalancing towards the consumer, an anti-corruption drive and the reform of state-owned enterprises, all of which is actually very positive to the outlook in the medium-term for China."

Andrew Lill, chief investment officer of Ibbotson Associates, agrees the situation is far more complex, arguing local share investors have already endured most of the necessary pain as the market adjusts to the new environment.

"The Australian equity market has been discounting for the slowing of China for 18 months, so when the numbers are in line with expectations, there will be no change in the Australian market," he says.

This discounting explains much of the local market's recent performance. "The impact has been factored in since the start of 2014 and we saw this in the Australian market's performance last year, which was worse than other equity markets," Lill says.

Despite these positive views, Brian Parker, NAB Asset Management's head of portfolio specialists group, still has concerns about the implications for client portfolios. "China is an important reason to be cautious about having too much Australian equity market exposure," he says.

"Australia is in a vulnerable position, as we are basically tied to the performance of the Chinese steel industry. Many countries are heavily exposed to China, but really we are not just tied to China, but to the performance of one industry, and that's steel."

Roy Maslen, Alliance Bernstein's Australian equities chief investment officer, agrees the ripples caused by China slowing and rebalancing its economy will be felt for some time to come. "After 10 years of a commodity price boom, we think we are potentially less than two years into a normalisation period, which is likely to continue, albeit with some volatility, over the coming years."

However, he argues the impact will be narrowly focused on the resources sector, rather than right across the local market. "In broad terms, when you think of resources, you have to be very selective about which names you invest in. And importantly, a lot of service providers to the resource industry are likely to come under continued pressure."

Cautious but confident

Leanne Pan, joint chief investment officer of Prime Value Asset Management, is another who believes the fading China boom does not spell trouble for Australian equities. Her concerns are more about the gradual withdrawal of stimulus measures.

"A lot of the positive sentiment about equities is due to the liquidity factor and that is a global phenomenon. Quantitative easing is a macro factor and it is lifting all boats, so investors need to be mindful of that," she warns.

The wave of global liquidity helped lift the Australian market (S&P/ASX300) to a strong 10.31 per cent return in the March quarter and some commentators are now questioning whether local shares are too expensive.

Dalton Nicol Reid director, Jamie Nicol, has mixed views: "Certainly, the PE of the market at 16.3 per cent is looking high by recent historic standards.

Continued on p24

Re-weighting to take advantage

Investment managers have been quick to act on the implications of a slowing China and fading resources boom, with most reporting they began re-weighting their portfolios several years ago.

"We've been cautious of resources for some time, in large part benefiting from our Hong Kong-based research team," says Alliance Bernstein's Australian equities chief investment officer, Roy Maslen.

Ibbotson Associates has also been circumspect about the local market, says its chief investment officer, Andrew Lill.

"We look for high quality earnings companies and those that appear cheap relative to other opportunities. We have been underweight the Australian dollar and Australian equities for three years."

In 2011, the firm looked at commodity cycles over time and decided resource companies were no longer the place to be. "We have been benefiting from that view and been heavily invested in the REIT sector since then," he explains.

The China story is also well in the past for Prime Value Asset Management. "In early 2000, China was one of our big thematics in the portfolio, with our allocation around 40-50 per cent to mining services companies. Now, it is nowhere near that level – maybe around 10 per cent," says Prime Value Asset Management joint chief investment officer, Leanne Pan.

"Some mining services companies are good operators and we still like them, but we are very mindful of the overall thematics as well."

However, the dilemma for the market is that it has rarely looked cheaper relative to the current low bond yields and interest rates."

Despite the high prices, Nicol believes the Australian market offers interesting opportunities in growth, domestic consumer and even China exposed stocks, due to recent reforms and the loosening of Chinese bank reserve requirements. "We could see improved conditions later in the year in China, which is likely to support those companies exposed to China. This includes some of the resources companies, as well as tourism and education exposed companies."

Pan agrees some China exposed companies have good prospects. "With China growth it is not just about resources, as there is major growth occurring in the middle classes and this is creating new demand for services and soft commodities like milk powder."

She believes services companies could also benefit, such as firms operating in the wealth management area and those providing supporting services and platforms. There will also be growing demand for telecommunications and IT services.

"It is important to remember there are other opportunities outside resources. There are many interesting prospects if you look at the share market as a whole," Pan says.

Change is constant

The sharp decline in resource company valuations has already changed the composition of the Australian share index.

"Currently, the biggest sectors are financials and real estate. There are new opportunities appearing in the market from initial public offerings, such as Medibank, and also in the aged care sector. The market itself is changing as industries come and go," Pan says.

Maslen thinks these shifts are creating opportunities. "Although we believe the growth in the non-mining economy is going to take some time to come

Ask the planner

Financial Planning asked David Kennedy CFP®, director of Hillross Pacific Advisory in North Sydney, to share his thoughts on the outlook for Australian equities.

FP: Given the slowing of economic growth in China, how attractive is the Australian equity market for local investors?

DK: Despite record low interest rates, in the short-term, the Australian equity market faces a number of headwinds. Lower commodity prices continue to weigh heavily on the domestic economy and the resources sector, earnings growth across the major banks has slowed, and the Australian dollar has remained stubbornly high despite the RBA cutting to record lows. We've seen above-average returns from the local market in recent years, but the environment we are in is a challenging one for investors, given the representation of banks and mining companies in the local indices.

FP: Which sectors in the Australian market are likely to perform well in this environment and which will suffer?

DK: Earnings growth across the market is largely flat, so companies that deliver on growth expectations will stand out. Those with exposure to offshore earnings and growth in the US economy are faring well, as are various companies leveraged to domestic housing construction. With the cash rate at 2 per cent, the yield story can continue to play out, but dividend sustainability (real and perceived) will be critical to total return outcomes.

FP: Are you re-weighting clients' Australian equities portfolios in light of this changing environment? If so, how?

DK: We rebalance at portfolio level relative to benchmarks on an ongoing basis according to a client's risk profile and investment objectives. Various model share portfolios used have been progressively re-weighting their Australian equities exposure to respond to the challenges confronting resources companies and opportunities arising via housing construction activity, the strengthening US economy and companies deriving a greater proportion of their earnings offshore.

FP: Are you talking to clients about looking offshore for better growth opportunities and a broader opportunity set?

DK: The value of diversifying beyond the Australian equity market is an ongoing dialogue with clients, in particular, with trustees of SMSFs who historically may have held more concentrated portfolios.

The benefits of exposure to assets, such as international equities and infrastructure, have been considerable in recent years, as global indices have outperformed the local market by some margin. We also talk through the need for more thorough portfolio diversification as a means to counter volatility.

David Kennedy

FP: How important are franking credits and for many clients, do their benefits outweigh the risk of lower Australian equity market returns?

DK: Our pre and post retiree clients holding account-based pensions are generally investing in a nil-tax environment and effective targeting of franked dividends is a valuable addition to their investment outcome. In a low-growth environment, the dividend and any tax credits represent a greater proportion of the total return. We talk to clients about first considering the sustainability of a company's dividend and the earnings growth supporting it.

through, ultimately that growth will be positive for a number of sectors, such as non-residential construction – we are already seeing a strong housing market – and transport and even consumer."

Lill believes planners should be seeking to identify the trends that will drive future growth for Australian companies, rather than looking backwards at the fading resources boom.

"Always look to the future. You need to consider that Australia has not had a recession for 24 years and we are probably at the inflexion point for the mining boom, making it harder to get a tail wind for the economy. So you need to look at where the potential profits will come from in the future," he says.

This means considering themes like the rising cost of capital when the US and UK central banks begin increasing interest rates, lower oil prices and new sources of demand for local exports, as the Australian currency continues to slide. "Companies that will do well are those with exposure to the US economy, such as healthcare or biotech, or those servicing the building sector in the US," Lill says.

"You need to think about the cycle and where Australia and the market will be in 2018. You need to think about future profits."

He also believes that another key driver of the local market will be India. "The slowdown in China is important, but the question is how much will India take up the slack from China. India is likely to be the next source of global demand, but it needs LNG gas and coal – not iron ore – so it should be those companies that do well, rather than iron ore miners."

Franking remains in favour

One factor continuing to support a heavy weighting to local equities is their tax advantages, with benefits like franking credits playing a key role in many client portfolios. However, planners may need to assess whether this benefit outweighs the risks after the market's strong run in the first part of the year.

"Franking credits are an important consideration for clients and influence people's natural bias towards Australian equities," Pan says.

"It is important to remember Australian equities give you an imputation credit that can add up to a 1.5 per cent return annually."

Lill believes in the current environment a fondness for franking may be a dangerous motivation.

"Franking credits are an important input, but they are not the only input. There comes a time when they become too expensive and I think that time is now," he warns.

"Although tax efficiency benefits are useful, if they are the only reason you are investing in a company then that is a dangerous approach. This is the reason the banks and Telstra have gone so well and their valuations now look very strong."

Good mental health

Mental illness is far more prevalent in society than many would think, yet for too many Australians, it is a debilitating condition that has significant financial and social implications. William Johns shares his insights on how planners can better interact with clients living with mental health illnesses.

We keep hearing it. Almost half of all Australians have experienced a mental disorder at some point in their lifetime[1]. A recent estimate of mental illness in Australia suggests that one-in-five people have a mental illness[2].

It is widely recognised that people with mental illness find themselves in very difficult positions, balancing the need to feel self-worth and their own limitations.

Many of our clients and some of our colleagues may find it difficult to work or secure employment because of health issues, such as mental illness. If the condition is chronic, they usually turn to Centrelink, which oversees the distribution of Government benefits to over six million clients, many of whom suffer from varying degrees of diagnosed or undiagnosed mental illness[3].

For people with a serious mental illness (estimated to be 59 per cent with psychosis and 21 per cent with mood disorders) that holds back their employment opportunities, a survey has found that 70 per cent of them are receiving the Disability Support Pension, 9 per cent receive NewStart allowance and only 7 per cent are employed or self-employed[4].

We all know that dealing with Centrelink can be difficult at times. But think of how difficult this must be for people suffering from a mental disorder.

There are increasing reports that people with mental illness face particular challenges when applying for a Centrelink benefit. This is particularly around the wrong payment type being issued and unrealistic expectations and conditions that are imposed on them[5]. This can lead to a feeling of discrimination, social isolation and exclusion, which can seriously obstruct any effort made of rehabilitation and recovery.

In this context, the following article is intended to give you a brief overview of 'mood disorders'.

Mood disorders

Mood disorder is a term used to designate a group of mental health illnesses, such as bipolar disorder, depression and mania.

In Australia, it was reported that depression is the fourth most common health issue managed by general practitioners[6].

There are various reasons why people suffer mood disorders, with about 40 per cent of people susceptible to suffering from mood disorders, such as depression, and the remaining 60 per cent because of a stressful event in their lives[7].

Mood disorders, such as depression, can be onset by various factors, including stressful jobs, financial pressures, substance abuse, an existing illness, after-birth issues (postnatal)[8] and family breakdown[9].

Mood disorders can affect the person's functioning, both physically and emotionally. According to Anxiety Australia[10],

mood disorders can have many symptoms, including:

- lowered mood, feelings of sadness or emptiness;
- marked increase or decrease in appetite and associated weight loss or weight gain;
- thoughts of self-harm or suicide;
- decreased motivation;
- lack of energy;
- thoughts of uselessness, worthlessness, hopelessness or inappropriate guilt; and
- poor concentration and memory, and difficulty making decisions.

According to the World Health Organisation, depression is a leading cause of disability in the world and the fourth contributor to the global burden of disease[11].

Mood disorders are therefore very real and widely accepted as a cause of long-term disability in sufferers. But the good news is that recovery is possible, by encouraging self-managed care and social support[12], medical interventions and social inclusion[13].

Centrelink makes mistakes too

There are many issues people with a mental illness, such as mood disorders, face with Centrelink, such as:

- Centrelink's policy is to contact people by telephone in the first instance, and this procedure does not appear to consider that clients with mental illness may not be able to engage with Centrelink at that time[14].
- Centrelink regularly issues letters demanding reviews and warns of the consequences of fraud. Customers with mental illness may find this threatening and distressing[15].
- Lack of record-keeping means that clients need to re-tell their story to Centrelink staff when required[16].
- The difficulty of the claims process and the lack of follow-up by Centrelink to ensure clients are offered the assitance required to make a claim.
- The stigma of the word 'disabled' or being labelled as having a 'disability' does not encourage equality and social inclusion.
- Income from jobs reduce the Disability Support Pension (DSP) or may result in its complete cancellation, which means many people with mental illness may feel stability of the DSP would be compromised if they seek employment.

Lessons to learn

Financial planners need to learn from the issues faced by Centrelink, particularly when it comes to mental health. The following are some issues that need to be considered:

- Choose the right time to make contact with an individual;
- Understand the individual's unique situation and the need to be heard; and
- As advisers, financial planners should avoid assuming how people may react to levels of stress, and be attuned, understanding, respectful and educated when dealing with individuals.

Moreover, planners should start recognising that we can play a positive role in people's lives, such as advising clients on cash-flow management systems like Centrepay and provide financial education to help ease the financial burden on those who are living with mental illness and who may be on the DSP.

It is proven that "people who engage a financial adviser advantage their wellbeing in every dimension and, most likely, account for the higher wellbeing"[17].

Advocacy

As financial planners, we can make very good advocates for people with disabilities, because of our intimate knowledge of the social security system and our ability to legally provide advice on these issues. Many of us have moderate legal training (knowing our rights, interpreting Centrelink forms and so forth), placing us in positions of advantage when dealing with Government agencies on behalf of our clients[18].

Conclusion

People with mental illness, especially those with mood disorders, such as depression, will find themselves misunderstood and often discriminated against because of their hidden disability. With such conditions being so common, many of our clients (and colleagues) require our support and understanding.

There is no doubt this is a serious topic that impacts our clients, businesses and profession. After all, we are constantly dealing with the human emotion of our clients – from loss of job, to lodging insurance claims for people dealing with serious health issues or even the death of a loved one.

And on a related note, don't forget about your own mental wellbeing. In particular, my thoughts go out to colleagues supporting and advising farmers in rural areas where suicide is all too common. Who supports them when they are supporting others?

We as individuals have a lot to deal with. Work pressures, deadlines, constantly changing legislation and regulation, KPIs, bosses and clients. After a busy day in the office, we go home to our waiting family, who also need our attention and may have their own special needs.

We need our own support system because financial planners play an important but burdensome role in managing and improving the financial wellbeing of Australians. And to constantly function at our optimum, we need to be mentally fit to fulfil our duties.

William Johns CFP® is the Managing Director of Health & Finance Integrated. He works directly with people with complex health conditions and consults to various businesses to better deal with disability, complex health needs and ageing.

As financial planners, we can make very good advocates for people with disabilities...

Footnotes

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Family trusts

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FIDUCIAN PORTFOLIO SERVICES

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Three different types of trusts**
- **Social security implications**
- **Financial planning opportunities**

A 'trust' is an agreement where a person or a company (the trustee) agrees to hold an asset or assets for the benefit of others (beneficiaries). The trustee is the legal owner of the trust asset/assets and the beneficiaries hold the beneficial interest in these assets.

There may be a variety of reasons for using trusts. The use and the structure depends on the purpose of the trust.

The following article provides an overview of 'family trusts' and explains some of the advantages and disadvantages related to family trusts.

What is a family trust?

An Australian family trust:

- Is generally established by a family member for the benefit of members of the family group;
- Can be subject to a 'family trust election', which provides certain tax advantages, provided the trust passes the family control test and makes distributions of trust income only to beneficiaries of the trust who are within the family group;
- Can assist in protecting the family group's assets from the liabilities of one or more of the family members (such as bankruptcy or insolvency);
- Provides a mechanism to pass family assets to future generations;
- Can provide a means of accessing favourable taxation treatment by ensuring all family members use tax-free thresholds for income tax purposes;
- Can provide other potential benefits, including avoiding issues such as challenges to the Will following the death of a family member.

Who is included in the family group?

Section 272-95 of the *Income Tax Assessment Act* (ITAA) 1936 sets out the family of an individual (the test individual) as:

a) any parent, grandparent, brother or sister of the test individual or the test individual's spouse;
b) any nephew, niece or child of the test individual or the test individual's spouse;
c) any lineal descendant of a nephew, niece or child referred to in paragraph (b);
d) the spouse of the test individual or of anyone who is a member of the test individual's family because of paragraphs (a), (b) and (c).

Where:

- A child includes the individual's child, adopted child, ex-nuptial child, stepchild, a child of the individual's spouse, a child of the individual within the meaning of the *Family Law Act 1975.*
- A spouse includes current spouse, former spouse, de facto spouse (whether of the same sex or a different sex).
- The term lineal descendent includes any descendent of an individual in a direct line relationship flowing downwards, starting with an individual's child (including an adopted child, stepchild or ex-nuptial child) and extending to include a grandchild, a great grandchild and so on.

In addition, section 272-90(2A) of the ITAA 1936 extends the family group further to include:

a) a person who was a spouse of either the primary individual or of a member of the primary individual's family before a breakdown in the marriage; and

b) a person who was a widow or widower (whichever is applicable) of either the primary individual or of a member of the primary individual's family and who is now the spouse of a person who is not a member of the primary individual's family; and
c) a person who was a stepchild of either the primary individual or of a member of the primary individual's family before a breakdown in the marriage of the primary individual or the member of the primary individual's family.

Types of trusts

Generally speaking, trusts can be:

- fixed;
- discretionary; or
- hybrid.

Fixed trust: In a fixed trust, the share that beneficiaries have in assets and income are pre-determined and fixed. This structure does not give the trustee any flexibility in varying income or capital distributions. An example of fixed trusts can be unit trusts (also known as managed investment funds), where each unit held in the trust represents an entitlement to a certain proportion of income and capital. The fixed trust is not a very common structure used in family trusts.

Discretionary trust: A discretionary trust provides the trustee with discretion over the distribution of trust income and capital in accordance with the terms of the trust deed. Discretionary trust structures are very common amongst family trusts due to the flexibility that they offer.

Hybrid trust: A hybrid trust has characteristics of both fixed and discretionary trusts. An example of a hybrid trust can be a unit trust with discretionary distribution options or a discretionary trust with certain fixed entitlements being fixed by the trust deed. The use of this structure can be beneficial for specific purposes, such as fixing a percentage of entitlement to a particular beneficiary/beneficiaries for a specific reason.

Trusts established for family affairs are usually 'testamentary' or 'inter vivos' trusts.

Testamentary trusts (also known as 'discretionary Will trusts') are established in a Will and do not come into effect until the Will maker's death.

In contrast, inter vivos trusts (also known as 'living trusts') are an arrangement provided by the Will and allow the Will maker to pass on their assets while still alive.

Note: When the trust income is distributed to a minor (under age 18), the taxation treatment of a discretionary Will trust should be distinguished from an inter vivos or living trust. This is explained further in the 'Financial Planning Opportunities' section of this article.

Taxation

The following relates to the taxation of family trust income, franked distributions and capital gains.

Trust income: The trustee of the family trust must distribute the taxable income generated by the assets of the trust to the beneficiaries. Income that is distributed to beneficiaries forms a part of the beneficiary's taxable income and is taxed at their marginal tax rate.

Any income retained by the trust (also known as undistributed income) is taxed at the top tax rate of 45 per cent plus Medicare levy of 2 per cent plus Budget Repair levy of 2 per cent.

This gives a strong incentive to family trusts to fully distribute the trust's income before the end of each financial year.

Franked Distributions: Where provided by the trust deed, franked distributions can be allocated to beneficiaries by making them specifically entitled to these distributions. The beneficiary will be taxed on the distribution and also receive the benefit of any franking credits.

Capital Gains: Similar to franked distributions, the capital gain generated by the disposal of a trust asset, can be allocated to beneficiaries for tax purposes. This is done via the trust deed by making beneficiaries specifically entitled to it.

Social security implications

The trustee holding savings on behalf of beneficiaries 'as trustee' should consider the impact of this on any Government benefits, as trusts are assessed under the 'control' and 'source tests' for Centrelink and Department of Veterans' Affairs (DVA) purposes.

Control Test: The control test is used to decide who has effective control of the trust. Although the trustee often takes care of the day-to-day management of a trust, effective control of the trust generally rests with a person who can:

- dismiss and appoint a trustee;
- veto a trustee's decision; or
- change the trust deed.

Generally speaking, this person could be the appointer, principal or guardian, or an associate of the trustee. However, quite often the trustee of the trust may also

Continued on p30

hold some of these powers. This is usually addressed in the trust deed.

Source Test: The source test is designed to identify the ultimate source of assets that are held in the trust.

In applying this test, the Government has recognised that, generally, when a person transfers assets into a trust structure, the assets will usually be used to benefit that person or that person's family.

If a person claims that the transfer of assets into the trust was a gift, the assets will only be exempt from gifting provisions if the person is not deemed to be the actual controller of the trust. Otherwise, the gifting provisions would apply.

Homeowners and non-homeowners

The following relates to determining homeowners and non-homeowners if the home is owned by the family trust.

For Centrelink or DVA purposes, an individual is a homeowner if they have a right or interest in the place they occupy as their home, and the right or interest gives them reasonable security of tenure.

In situations where the home is owned by the family trust, when assessing whether or not an individual occupying the home is a homeowner for Centrelink/DVA purposes, the following must be taken into consideration:

- the terms of the trust deed, articles of association and any other relevant documentation that shows:
  - the basis on which the home is occupied, and
  - any restrictions on the use or disposal of the property;
- the relationship (e.g. personal, business) of the individual to the trustee/s;
- whether the individual is a trust beneficiary;
- the length of time the individual has occupied the home and the length of time they expect to stay;
- whether the individual previously owned or partly owned the home;
- the extent to which the individual can influence the trustee/s to secure uninterrupted occupancy of the home.

For example, an individual has reasonable security of tenure and will be assessed as a homeowner when determining their entitlement to Government benefits if they:

- are a trustee and/or beneficiary of the trust; and
- live in the home; and
- there is no threat of terminating the occupancy.

Financial planning opportunities

There are a number of advantages in using family trusts, including income splitting, asset protection and estate planning. Let's go through some of the benefits in detail.

Income splitting and distribution of income within the family group: When the trust income is distributed to beneficiaries, the trustee must take into account each beneficiary's financial, taxation and personal circumstances, and distribute available income in the most tax-effective manner.

When it comes to distributing trust income to a minor, the assessment of income is determined by the type of trust.

Any income distributed from the living trust to a minor is assessed as 'unearned income' and is taxed at 'minor tax rates', which are higher when compared with adult tax rates. The amount of unearned income that a minor can earn before penalty rates of tax apply is $416. Income over this threshold is taxed at 68 per cent up to $1,307, after which income is taxed at 47 per cent and the minor is not eligible for the Low Income Tax Offset.

With this in mind, it may be more tax effective to distribute most of the living trust income (if not all) to adult beneficiaries, including senior family members who may be able to take advantage of the senior and pensioner tax offset.

In addition, beneficiaries with lower taxable income may be distributed more income than those with higher taxable income. The trustee must take these issues into consideration when distributing the trust income to its beneficiaries.

In comparison to living trusts, penalty tax rates do not apply to testamentary Will trust income distributed to a minor, which includes assessable income of a trust that resulted from a Will, codicil or an intestacy, or a court modification of a Will, codicil or intestacy (ITAA36 s 102AG). When this applies, adult tax rates are applied to income distributions paid to a minor and the Low Income Tax Offset will also apply.

When combined with a carefully drafted trust deed, income splitting and the distribution of income within the family group can allow for the tax-effective treatment of estate assets and the distribution of the trust income.

Asset Protection: The trustee of a discretionary trust holds assets for the beneficiaries. The trustee does not personally own these assets. As such, the assets held by a person as trustee cannot be taken by creditors in the event of a trustee declaring bankruptcy or insolvency unless the debt relating to the creditors was a trust debt.

In addition, beneficiaries do not own any of the trust assets until such time when the trustee exercises its discretion to make a distribution of assets.

In situations where the debt relating to the creditors is the primary beneficiary's debt, the trustee would administer the trust fund on the primary beneficiary's behalf until such

time as the primary beneficiary is discharged from bankruptcy or settles other claims against him/her. The primary beneficiary could then assume the trusteeship of the trust.

Estate Planning: One of the main advantages of using the trust structure is that it allows assets of the family to be passed on to future generations in a tax-effective manner. This can be arranged while the person is still alive (living trust) or after their death (testamentary Will trust).

A testamentary Will trust is a trust established after the death of a person. Provision must be made in the deceased's Will to establish the trust.

Testamentary trusts are a useful estate planning tool, particularly where young children are involved, as it can help to minimise the tax for the surviving parent or provide management of a child's inheritance.

As different children may have different needs, it may be worth establishing more than one testamentary Will trust.

The Will can specify that a testamentary trust must be established or allow the executor to decide if it's in the interest of the dependants based on the circumstances at that time.

The following advantages and disadvantages must be taken into consideration when recommending testamentary Will trusts:

Advantages of using a testamentary Will trust include:

- asset protection;
- flexibility for the distribution of income and capital (if discretionary);
- tax planning, as income received by a child will be taxed at adult tax rates;
- can restrict access until the child reaches a specified age.

Disadvantages of a testamentary Will trust include:

- the cost of establishing and maintaining the trust;
- the trustee has full discretion and some beneficiaries may not be provided for in accordance with the deceased's wishes if the trustee favours one beneficiary over another;
- loss of control by the beneficiary until the trustee makes a distribution.

Conclusion

Trusts can be very powerful tools in protecting and distributing family assets in a tax-effective manner.

However, the establishment and the structure of the trust must be carefully considered and as such, professional legal, accounting and financial advice must be sought to ensure that the trust is established and operated in a manner that meets the needs of the family.

Anna Mirzoyan, Fiducian Technical Services Consultant, Fiducian Portfolio Services.

QUESTIONS

1. What tax rates are applied to income distributed from the testamentary trust to minors?

a. Adult tax rates.

b. Company tax rates.

c. Penalty tax rates.

d. 15 per cent.

2. What tax rates are applied to income distributed from an inter vivos trust to minors?

a. Adult tax rates.

b. Company tax rates.

c. Penalty tax rates.

d. 15 per cent.

3. Which of the following statements is not correct?

The trustee must:

a. distribute all income generated by the trust assets to beneficiaries each year.

b. retain income generated by the trust assets within the trust.

c. take each beneficiaries financial, personal and taxation circumstances into consideration before distributing the available income.

d. agree to hold trust assets on behalf of beneficiaries.

4. Which of the following statements is correct?

a. Advantages of a testamentary Will trust include asset protection, flexibility for the distribution of income and assets, and tax planning.

b. Disadvantages of a testamentary Will trust include the cost of establishing and maintaining the trust and loss of control by the beneficiary until the trustee makes a distribution.

c. Trusts are assessed under the control test and the source test for Centrelink and DVA purposes.

d. All of the above.

Insurance advice and the Duty of Disclosure

KATHERINE ASHBY
BT

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Defining the duty of disclosure**
- **Insurance Contracts Amendment**
- **Adviser obligations**

The 'duty of disclosure' is the obligation of an insurance applicant to answer all application questions wholly and truthfully, and to disclose any information that could be relevant to the insurer's decision to offer cover.

The *Insurance Contracts Act 1984* (the Act) sets out most of the governing rules of insurance policies. In particular, it lists both the insurer and the policy owner's rights and obligations, as parties to the contract. The Act details when the duty of disclosure applies, when it does not, the rules of compliance with the duty, and remedies available to the insurer in the event that the duty of disclosure was not met.

Duty of disclosure

As an adviser, it is important to understand the relevant sections of the Act for two reasons. Firstly, it is your role to assist your client in understanding the importance of the duty and what is required to meet their obligations. Secondly, the consequences of non-disclosure and the remedies available to an insurer are considered by the courts as policy benefits and therefore, need to be carefully considered when replacing any policies in force.

Section 21(1) of the Act sets out the duty for the insured, as follows:

'1. Subject to this Act, an insured has a duty to disclose to the insurer, before the relevant contract of insurance is entered into, every matter that is known to the insured, being a matter that:

a) the insured knows to be a matter relevant to the decision of the insurer whether to accept the risk and, if so, on what terms; or

b) a reasonable person in the circumstances could be expected to know to be a matter so relevant.'

This duty exists not only when completing the application, but also right up until the contract is entered into. This means that any changes in health and/or medical interactions which happen during underwriting should be reported to the insurer. The duty then applies again each time an application is made for a new policy, or to increase and/or alter an existing one.

Exemptions

Section 21(2) of the Act details the items that are not required to be disclosed:

'2. The duty of disclosure does not require the disclosure of a matter:

a) that diminishes the risk;

b) that is of common knowledge;

c) that the insurer knows or in the ordinary course of the insurer's business as an insurer ought to know; or

d) as to which compliance with the duty of disclosure is waived by the insurer.'

Point d) is important, as it refers to instances where the duty of disclosure is waived by the insurer. In order for the duty of disclosure to apply, the insurer needs to ask questions. If the insurer does not ask any questions, then the insurer is considered to have waived the duty of disclosure – eg, at policy renewal or when upgrades are automatically applied to a policy without any underwriting questions.

Another useful example is group insurance under default or automatic arrangements.

In situations where the cover is automatically provided to the fund member without any questions being asked, no duty of disclosure exists. Experienced advisers will be aware, however, that other negatives of the group cover may also apply, including restrictive policy terms and exclusions.

On the other hand, questions that may be perceived as being of minimal significance, such as under a Declaration of Good Health, are considered to be a recommencement of the duty of disclosure. If upgrading cover with the same insurer (eg, old series to new series) and there are some underwriting questions required, then it is likely that the three-year period will recommence. It is worthwhile checking with the relevant insurer to find out their approach, and then ensuring adequate warnings are provided to the client.

Remedies

In 2014, the advice community became more familiar with section 29 of the Act, due to the well-known Commonwealth Financial Planning v Couper and Swansson v Harrison cases. Section 29 of The Act sets out the remedies available to insurers in the event that the client has failed to fulfil their duty of disclosure.

In short, if a client has non-disclosed and the insurer can show that, had this missing information been known, cover would not have been offered, the insurer can avoid the policy (section 29(3)). If, however, the policy has been in force for longer than three years, then the insurer needs to also show that the non-disclosure was fraudulent on behalf of the client (section 29(2)).

In the case of Commonwealth Financial Planning v Couper, neither the adviser nor client knew about the three-year period set out in s29(3), which allows insurers to void contracts that they would not have entered into had a misrepresentation not been made. As such, the adviser did not warn the client of this when recommending the client replace his existing policy. The impact of this three-year mark was listed in the judgment as the greatest difference between the existing and replacement policy. The judgment stated:

"Although the SOA did disclose the risk of avoidance for non-disclosure, it failed to disclose the important effect of s 29(3)… s 29(3) was, in the adviser's words, "news to me".

…In circumstances where in truth there was very little material difference in the policies, that statutory difference was very material to the decision Mr Stevens was being asked to make. It was misleading and deceptive to advise him to do so without drawing it to his attention."

As an advice professional, you should familiarise yourself with the Act to ensure you can explain the duty of disclosure to your clients and assist them in meeting their obligations.

It is not a stretch to say that prior to this judgement, most advisers did not disclose the impact of section 29(3) as a lost benefit in their Statements of Advice (SoA) – being that the existing policy had been in force for more than three years, and this new policy would restart the three-year period, therefore giving the insurer greater ability to avoid the claim in the event of non-disclosure.

This difference is now more broadly understood. However, amendments to the Act came into effect on 28 June 2014, meaning the goal posts have now been moved again.

Continued on p34

Insurance Contracts Amendment in force from 2014

In June 2013, the Senate passed the *Insurance Contracts Amendment Act 2013* (ICA Act), which had been put forward in various forms as far back as 2004. The amendments were designed to simplify the duty of disclosure and remedy deficiencies and ambiguities in the *Insurance Contracts Act.*

For non-disclosure remedies, there are two changes that will have the most significant impact.

The first is that the insurer now has the ability to 'unpack' linked policies and treat them separately. Previously, a total permanent disability (TPD) and/or trauma policy linked to life cover had to be considered as a whole policy, meaning the insurer would need to show that cover would not have been offered for life, as well as the other policies, in order to avoid the policy. This change now allows an insurer to apply different remedies to the life policy and the linked other covers. This change applies to all policies made before and after the 28 June 2014 amendment date.

Secondly, in the event of non-disclosure for non-death policies (TPD, trauma, income protection and business expenses), the insurer now has more remedies available under section 29(6). Previously, the insurer could either pay the claim, or show that they would not have offered cover and avoid the policy. This meant there were no remedies available when alternate terms, such as loadings or exclusions, would have been offered.

Following this amendment, the insurer now has the ability to vary the contract in order to place the insurer in the position they would have been in (subject to subsection (7)), provided they had complied with the duty of disclosure. This alteration to the policy

Table 1

All policies	
In force less than three years	- Explain three-year rule and impact of section 29(3). - Although policy has not been in force for three years, by replacing it, the three-year period is re-commencing, meaning a longer period of time to be clear of the three year period.
In force more than three years	- Your existing policy has been in force for more than three years. As such, the insurer cannot avoid the policy for any innocent non-disclosure or misrepresentation by you prior to entering into the policy, eg, relating to your health and past times, if the insurer would not have entered into the contract had that information been known. - However, if you take out a replacement policy, the insurer may be able to avoid the policy within the first three years for any such non-disclosure or misrepresentation. The insurer may be able to do this even if you omitted or misrepresented something by accident. After three years, the insurer must prove the non-disclosure or misrepresentation was fraudulent in order to avoid the policy. - If you decide to take out a replacement policy, you need to be careful to answer all questions on the application truthfully and ensure that you tell the insurer everything that is relevant to the insurer's decision about whether to insure you and, if so, on what terms.
No duty of disclosure applies to existing cover but does apply to replacement cover	- Explain that the existing policy does not have a duty of disclosure that applied to the policy, therefore the insurer cannot avoid the existing cover under section 29. - Explain the duty of disclosure and implications of section 29. - You may need to warn your client that section 29 will apply to their new cover.
In addition to the above – for non-death cover (TPD, Trauma, Income Protection, Business Expenses)	- When applying for an insurance policy, you are under a duty of disclosure to answer all application questions honestly and to tell the insurer about any matters that could be considered relevant to the application. If you do not do so, section 29 of the *Insurance Contracts Act* sets out the remedies available to the insurer in the event of non-disclosure. Amendments came into force on 28 June 2014, giving insurers the ability to vary a contract in order to place the insurer in the position in which the insurer would have been had the duty of disclosure been complied with. As your existing policy pre-dates 28 June 2014, this amendment does not apply to your existing policy, but will apply to the recommended replacement policy.

can occur at any time, not just within three years of the policy commencement.

While the three-year rule does not apply, there is still an important date to be aware of. Insurers can only make variations to non-death policies under section 29(6) if the policy was taken out or altered after 28 June 2014. If we follow the logic of the Commonwealth Financial Planning v Couper case, the impact of this section can be classified as a product difference that should be disclosed.

Speak to your licensee about how they suggest you word this warning.

One suggestion could be to include a statement to clients along the lines of: when applying for an insurance policy, you are under a duty of disclosure to answer all application questions honestly and to tell the insurer about any matters that could be considered relevant to the application. If you do not do so, section 29 of the *Insurance Contracts Act* sets out the remedies available to the insurer in the event of non-disclosure. Amendments came into force on 28 June 2014, giving insurers the ability to vary a contract in order to place the insurer in the position in which the insurer would have been in, had the duty of disclosure been complied with. As your existing policy pre-dates 28 June 2014, this amendment does not apply to your existing policy, but will apply to the recommended replacement policy.

Adviser obligations

To summarise, your obligations sit in two parts:

a) the role of educating and guiding your client through their duty of disclosure; and

b) the role of ensuring your client understands the implications of cancelling policies.

Table 1 sets out a starting point for the items your Statement of Advice will need to cover under the different replacement policy scenarios.

As an advice professional, you should familiarise yourself with the Act to ensure you can explain the duty of disclosure to your clients and assist them in meeting their obligations.

The length of time a policy has been in place, or the commencement date, can be an important benefit of that policy due to the effect of section 29 of the Act. You should consider briefing your clients about this when replacing cover.

For further assistance, contact the BT LifeTech team at lifetechnical@btfinancialgroup.com.

Katherine Ashby, Senior Product Technical Manager, Life Insurance, BT.

QUESTIONS

1. In relation to the duty of disclosure, the role of the adviser is to:

a. educate and guide their client through their duty of disclosure.

b. ensure their client understands the implications of cancelling/replacing policies.

c. both of the above.

d. none of the above.

2. The duty of disclosure requires that the insured person:

a. disclose every matter that is known to the insured that the insured knows to be relevant to the insurer when deciding to accept the risk and, if so, on what terms.

b. disclose every matter that a reasonable person in the circumstances could be expected to know to be relevant.

c. both of the above.

d. none of the above.

3. Section 29(3) of the *Insurance Contracts Act* is relevant for replacement policy advice because:

a. to avoid a policy that has been in force for more than three years, the insurer must prove fraudulent non-disclosure has occurred.

b. to avoid a policy that has been in force for less than three years, the insurer must only prove innocent non-disclosure has occurred.

c. the three-year period restarts when a new policy commences.

d. all of the above.

4. The effect of section 29(6) of the *Insurance Contracts Act* on post-28 June 2014 non-death policies is:

a. the insurer can vary the policy to place themselves in a position they would have been in, had the duty of disclosure been complied with, within the first three years.

b. the insurer can vary the policy to place themselves in a position they would have been in, had the duty of disclosure been complied with, at any time.

c. the insurer can avoid the policy to place themselves in a position they would have been in, had the duty of disclosure been complied with, within the first three years.

d. the insurer can avoid the policy to place themselves in a position they would have been in, had the duty of disclosure been complied with, at any time.

Inspiration on show at Women in Financial Planning events

L-R: Steven O'Donoghue (Brisbane Chapter Chair), Marietta Gibbs (Chapter committee), Michael Wright (panel speaker), Mark Malhi (Chapter committee), Eleni Michael (Chapter committee) and Caroline Rees (Brisbane Chapter committee).

Professor Fiona Wood shared her story of inspiration.

In the months of April and May, the Brisbane and Western Australia Chapters held their respective Women in Financial Planning lunch events, with inspirational guest speakers ensuring high attendance at both events.

The Western Australia inaugural Women in Financial Planning lunch was held on 5 May, and was a sell-out event.

The 2005 Australian of the Year, Professor Fiona Wood AM, spoke at this event. The British born plastic surgeon is the director of the Royal Perth Hospital burns unit and the Western Australia Burns Service. She is also a clinical Professor with the School of Paediatrics and Child Health at the University of Western Australia and Director of the McComb Research Foundation.

Wood is well-known for her patented invention of spray-on skin for burn victims, a treatment which is being continually developed.

At this lunch, members and guests heard a truly inspirational story of passion and dedication. Professor Wood shared her story of having to juggle work and family commitments, whilst developing the Fiona Wood Foundation – a not-for-profit burns research organisation.

During the presentation, guests took away key highlights on how to engage criticism with problem solving, and the importance of having to save 'the best of us' for those that mean 'the most to us'.

At the Brisbane Women in Financial Planning event on 22 April, members and guests heard from three guest speakers: Philippa Sheehan (Managing Director, My Planner Australia), Kerry Atkinson (HR consultant, HR Business Solutions) and Michael Wright (Head of Westpac Financial Planning, Qld).

The speakers provided insights into:

- The pathways that women can take to gain further success in their careers;
- The practicalities of finding or creating an environment that supports your success; and
- Programs that are being implemented in big business to encourage gender diversity and successful female leaders.

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

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Anne Goorden CFP®
Money Solutions

QLD

Dean Williams CFP®
Williams Advisory

VIC

Jason Cook CFP®
Equipsuper

Lee Nickelson CFP®
Godfrey Pembroke

Debbie Hartalidis CFP®
Perpetual Trustee Company

Stephen Colwell CFP®
Kearney Financial Planning

WA

Paul Ferrante CFP®
Precision Paraplanning Services

Upcoming Chapter events

3 June

Brisbane: Member Lunch

9 June

Northern Territory: Member Seminar with Platinum Asset Management

10 June

Cairns: Member Seminar with Platinum Asset Management

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

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How long is your shoestring?

Armidale planning practice Roberts & Morrow successfully supported a Future2 grant application for Beyond Empathy, which seeks to use the arts to build bridges and reconciliation between indigenous and non-indigenous young people. Discover how Beyond Empathy used its Future2 Make the Difference! grant in the local New England community.

Beyond Empathy's Access All Areas (AAA) program is an initiative set up in Armidale (NSW) aimed at making a lasting difference in the lives of disadvantaged young Aboriginals. It does so by delivering arts and cultural activities to divert these young people from drugs and alcohol abuse.

The various projects and activities used as part of the program, including internships, workshops, performances and exhibitions, are all mentored by successful professional Aboriginals, providing the 125 disadvantaged young Aboriginal people involved in the program with strong role models.

As an accountant with Roberts & Morrow, Amy Holman has a good understanding of Beyond Empathy and the work it does in the local Armidale community.

"As the accountant for Beyond Empathy, I see the great work it does with disadvantaged young Aboriginals at a grassroots level," Holman says. "I'm passionate about the work it does and the great results Beyond Empathy is getting. Its programs are really improving the lives of disadvantaged young people."

One aspect of Beyond Empathy's AAA program involved a budgeting workshop co-led by Holman and funded through the Future2 grant. Titled 'How long is your shoestring?', the project was developed by Beyond Empathy in partnership with Roberts & Morrow. The grant application was endorsed by Kyle Pearson CFP®, a partner of Roberts & Morrow.

The budgeting workshop offered practical advice to a group of young Aboriginal women who then participated in a supermarket shopping challenge, which was video recorded, allowing them to put their new budgeting skills into practise. With each of the eight participants given $200 to spend, they were challenged to put together the healthiest and most economical grocery trolleys for one week.

"The workshop was led by the inspiring Rusty Bennett, a young mum who efficiently manages her own limited family budget to ensure that her four children eat healthy and satisfying meals throughout the week, and Amy Holman from Roberts & Morrow," said Beyond Empathy project manager, Cherene Spendelove. "Together, they did a fantastic job of making budgeting seem simple."

According to Spendelove, Beyond Empathy decided to develop the 'How long is your shoestring' activity to offer practical skills and support to local young people in a fun and creative way.

While shopping, the eight participants had to consider their weekly menu, and factor in considerations such as school lunches. This meant that the participants had to actively put into practise the key learnings from the budgeting workshop. On reaching the checkout, each trolley was checked to determine which participant had achieved the most value for money and who had the healthiest shopping.

Prizes were then given to the participant with the healthiest trolley and the participant with the most economical trolley.

Spendelove added that the budgeting and planning resources created for the workshop will be uploaded to the Beyond Empathy website at www.be.org.au, along with a light-hearted reality 'television-style' video that was created on the day of the supermarket challenge. She says both resources will help other young people better understand the importance of budgeting and how they too will be able to stretch their weekly spending further. Beyond Empathy is planning to repeat the Future2 funded budgeting workshop, with a view to develop other practical skills-based workshops.

According to Future2 Foundation general manager Susan Grice, it is hoped that this year's Wheel Classic cyclists will meet up with participants of the Beyond Empathy program on 13 November when the cyclists arrive in Armidale on route to Brisbane. A workshop session will partner up some of the financial planner cyclists with disadvantaged young Aboriginal people in need of financial planning help.

"This will be a great way for the riders to see firsthand the kind of programs being funded by Future2 and the young lives that are being changed for the better as a result," Grice says.

Future2 Make the Difference! grants are open to applications until 31 July. For more information on Future2, go to www.future2foundation.org.au

FTB - Planning forward for families

In the 2013-14 financial year, approximately 622,000 new claims for Family Tax Benefit were finalised by Centrelink, so you may have clients who are currently receiving one or both parts of this payment.

Therefore, when planning forward, it's important to know from 1 July 2015, some changes may affect your client's eligibility for Family Tax Benefit Part A and Part B, as well as the amount of the payment they receive.

There are three parts to the changes. The first two involve Family Tax Benefit Part A and the third affects Family Tax Benefit Part B.

1. The additional child add-on amount for the second and subsequent child will no longer be included in the Family Tax Benefit Part A Higher Income Free Area. This means the Family Tax Benefit Part A Higher Income Free Area of $94,316 will apply for all families, regardless of the number of children in their care.
2. Families with four or more children will automatically receive the Large Family Supplement in addition to their Family Tax Benefit Part A.
3. In regards to Family Tax Benefit Part B, the primary earner income limit will be $100,000 per annum on 1 July 2015. Families where the primary earner earns $100,000 or less may continue to receive Family Tax Benefit Part B.

When we talk about income limits for family payments, we talk about an adjusted taxable income.

This figure includes reportable fringe benefits, superannuation contributions, total net investment losses, tax-free pensions and benefits, foreign income, and tax exempt foreign income.

If your client is paying child support, this amount can be deducted from the adjusted taxable income. Calculating this correctly can make the difference between your client being eligible for a payment or not.

Currently, with Family Tax Benefit Part B, the secondary earner in a two parent family can have an adjusted taxable income of $5,329 before it affects the amount they receive. If your client's partner earns less than this and the primary earner has an income of $100,000 or less, they will receive the maximum amount of Family Tax Benefit Part B, provided they are eligible.

If your clients are planning to have children and intend to claim Parental Leave Pay, a factor to consider is that they will not be eligible to receive Family Tax Benefit Part B during their Paid Parental Leave period. However, they may be eligible after this period ceases.

Your clients do not have to do anything once these changes take effect on 1 July 2015, but Centrelink encourages you to go online and use the estimator tool to see if and how they may be impacted.

The online estimator will let you choose two options: an estimate based on the current date, and one for 1 July 2015.

As always, Centrelink encourages you to introduce your clients to myGov. It is a simple way to access a range of Government services online. Simply visit my.gov.au to learn more.

Once your clients have created a myGov account, and linked their Centrelink account, they can sign in to view their current payment rate and update their income and assets.

There are other factors that may affect your clients' eligibility and payment rate for Family Tax Benefit. More information can be found at humanservices.gov.au/ftb

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