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This spirit of professionalism

Raimon Lewandowski CFP® on culture within an FPA Professional Practice

THIS ISSUE: New consumer advertising campaign / Risk insurance Anti-detriment payment / Managing currency risk

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FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

2015 FPA National Roadshow
April – June

SECURING *the* FUTURE

STRATEGIES *for* EXCELLENCE,

TODAY *and* TOMORROW

Join us for a unique opportunity to gain the latest updates on FoFA, the FSI report and PJC recommendations, and learn about new advice opportunities in the retirement income market.

In just two hours, this free of charge session will provide you with:

- An update on the latest legislation
- Information on how and when the proposed new recommendations could impact you
- Case studies on how to implement best practice retirement planning that meets your best interest duty
- Insight into the main needs of retirees and the specific risks they face
- 2 CPD points

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

FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

In partnership with

challenger

Zenith Investment Partners

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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May 2015

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Securing the future

This year's national roadshow is packed with new insight, innovative thinking and real advice solutions.

A few days ago, we kicked off this year's FPA national roadshow. Over the course of the next two months, team FPA will visit 33 locations around Australia. Make no mistake about the value that we have crammed into this two hour session.

Evolving legislation

A question on everyone's mind at the moment is how the future of financial planning will look. The last few months have been turbulent to say the least. We are standing in the eye of a storm that has created ongoing volatility and uncertainty within the financial planning community. With so much happening, it is no wonder that many of you are confused about what you might and might not need to do to comply with new and untested measures in FoFA, and proposed measures that may arise from the FSI Report and PJC Inquiry.

In my mind, there is no better time for us to connect with you face-to-face. At the roadshow, you'll hear an update on FoFA, the FSI Report and the PJC Inquiry, and you will also have an opportunity to ask your burning questions.

Innovative strategy

Our roadshow partners, Challenger and Zenith Investment Partners, will present on the subject of retirement, zooming in on the specific needs and risks of retirees. They have some research to share with you and of course, innovative strategies to help you deliver exceptional service to this segment.

As a profession, it is important we continue to develop and re-invent our approach, as the needs of clients, and the professional landscape evolves.

Practical workbook

We are deeply committed to providing practical support and guidance on how to deliver high quality financial advice to clients, in a way that meets best interest obligations. We have therefore developed a 36 page workbook, packed with case studies, practical tools and guidance on how to deliver on your best interest duty throughout the advice process. You will receive a copy of the workbook at the roadshow.

It is important to highlight that best interest goes far beyond a personal belief you are doing the right thing by your client. Best interest duty requires properly documented processes that facilitate such duty of care, in a way that is integral to your daily practice.

The workbook will provide you with modern day solutions that you can implement right away, to help you meet your obligations as a professional financial planner, whilst delivering excellence to your clients.

This year's roadshow is a unique opportunity to prepare for the future. I recommend you to spend two valuable hours with us. If you haven't yet registered, go to www.fpa.asn.au/roadshow to secure your place.

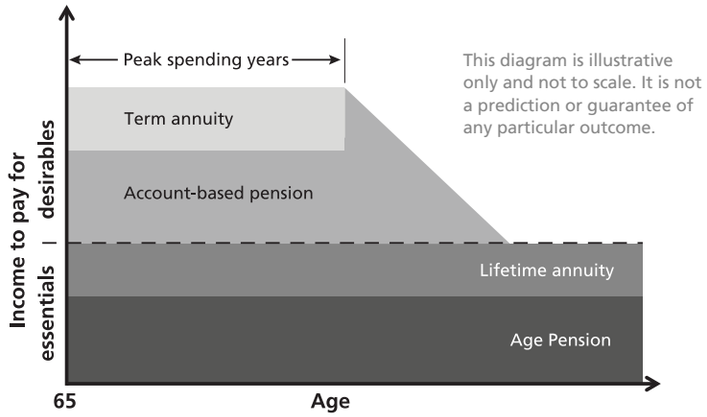
Mark Rantall CFP®
Chief Executive Officer

We are deeply committed to providing practical support and guidance on how to deliver high quality financial advice to clients, in a way that meets best interest obligations.

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

Income layering is a strategy that advisers can use to provide peace of mind when clients go from a regular paycheque to surviving on savings.

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. An income layering strategy is an increasingly popular way to help reduce these concerns, increase Age Pension entitlements, and help clients enjoy a long and happy retirement.



First, work out the spending needs
You can use Challenger's online tools to help clients assess their spending and forecast the income they'll need in retirement. Explain how their spending can be grouped into 'essentials', to cover the cost of living (things like food, clothing and electricity), and 'desirables', to cover holidays, entertainment and so on. Then they're ready to learn about layering.

Income layer 1: The Age Pension
The first step is to 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. They will help pay for day-to-day essentials. However, the Age Pension alone is unlikely to cover everything. To help prevent the cost of essentials from becoming a worry, it's time to add an important layer.

Income layer 2: A strong foundation
Challenger's lifetime annuities provide a regular income no matter how long a person may live. Use a lifetime annuity to help cover the gap between the Age Pension and the cost of living and you can eliminate one source of worry for life. Clients can retire confident they have a strong income foundation to take care of all the basics.

Income layer 3: Invest for growth
With the cost of living covered, you can now add a layer that may yield higher returns over the long term. Account-based pensions may fit the bill. This layer provides the possibility of capital gains and lets clients adjust the level of income as needed, providing flexibility in emergencies.

Income layer 4: Stability for active spenders
Clients may want a holiday every year, or a new car in five years, or they may wish to plan ahead for weddings, grandkids and so on. To prepare, take advantage of Challenger's term annuities which have competitive rates, flexibility in capital repayment and durations ranging from 1 year to 50 years.

Time to introduce your clients to income layering?
An income layering strategy can provide real peace of mind when clients go into retirement. It can help increase their Age Pension entitlements, provide spending money when needed and ensure their basic needs will be met, no matter how markets perform or how long they live. If you'd like 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

challenger

CHL2357/FP

Changes to Victoria powers of attorney

Victoria will introduce changes to its legal framework for powers of attorney, effective from 1 September 2015. These changes have implications for financial professionals, particularly for FPA practitioners in Victoria. The following key changes only apply to the legislation in Victoria.

Updated terminology: Financial professionals who work in Victoria, or who work with clients who have connections to Victoria, may encounter different terminology around powers of attorney. Those who make a power of attorney will be known as the 'principal', and those who they appoint will be known as 'attorneys'. As such, the terms 'donor', 'appointer' and 'enduring guardian' will no longer be used.

Enduring powers of attorney: The current Victorian system has two kinds of enduring powers of attorney: the 'enduring power of attorney' (which relates to powers for financial matters) and 'enduring power of guardianship' (which relates to powers for personal matters). These enduring powers have been consolidated into 'enduring powers of attorney', which encompass both financial and personal matters. The new legislation sets the powers and obligations of this combined power, and provides for a criminal offence of up to five years imprisonment for abuse of this power. The legislation gives general oversight of the powers to the Victorian Civil and Administrative Tribunal (VCAT), and establishes more stringent conditions for witnesses.

Non-enduring powers: The current 'general powers of attorney' will become 'general non-enduring powers of attorney', to reflect the use of this appointment for a finite period, and that it does not endure if the principal should lose capacity to make decisions.

Supportive attorneys: The legislation introduces a new power of attorney – the 'supportive attorney'. This role is designed to help professionals to assist the principal in making a decision. The power gives the supportive attorney capacity to obtain information and communicate the principal's decision. Where the decision does not involve a significant financial transaction (defined as a transaction valued over $10,000 and most real estate transactions), the supportive attorney can take reasonable steps to implement the principal's decision. As with enduring powers of attorney, the legislation implements criminal penalties and VCAT oversight.

Grandfathering: Powers of attorney made up until 1 September 2015, which are valid under current legislation, will remain valid after that date. Powers of attorney/supportive attorney arrangements made from 1 September 2015 will need to comply with the new legislation to be valid.

National Roadshow rolls into second month

This year's annual FPA National Roadshow is now into its second month, having kicked off last month in Geelong on 27 April, with record numbers having attended the first six roadshows.

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

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

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

Save the date*

5 May
New England – 12pm-2pm

6 May
Western Division (Dubbo) – 9:30am-11:30am

7 May
Western Division (Orange) – 9:30am-11:30am

19 May
Brisbane – 12pm-2pm

21 May
Melbourne – 12pm-2pm

22 May
South Australia – 12pm-2pm

27 May
Sydney – 12pm-2pm

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

1 June
Hobart – 12pm-2pm

2 June
ACT (Canberra) – 12pm-2pm

Townsville – 7:30am-9:30am

3 June
Mackay – 7:30am-9:30am

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

Rockhampton – 7:30am-9:30am

5 June
Wide Bay – 7:30am-9:30am

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

Gold Coast – 12:30pm-2:30pm

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

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

16 June
Cairns – 7:30am-9:30am

Riverina (Wagga Wagga) – 12pm-2pm

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

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

Newcastle – 12pm-2pm

19 June
Gippsland – 12pm-2pm

23 June
Sunraysia – 7:30am-9:30am

Wollongong – 12pm-2pm

** Breakfast, morning tea or lunch is included.*

Condolences on passing

It is with sadness that the FPA reports the passing of two members: Ballarat Chapter Committee member, Terry Emmerson CFP®, and David Martin CFP® from Brisbane.

Terry had been a financial planner since 1987, an FPA member for 20 years and a valued member of the Ballarat Chapter Committee. He was an authorised representative of AMP Financial Planning. Terry was a well-known and respected member of the local Ballarat community.

Terry was born on 5 January 1945 in Horsham, Victoria. At the age of 42, he became a financial planner with AMP.

Terry relished his work as a planner. He built a very successful business over the next 14 years, at which point his youngest son, Chris, joined the business and they formed the company, Emmerson Financial Group.

Along the way, the group received recognition and awards – the most recent being the second highest award level for AMP planners of 'silver', presented on 20 March this year. Sadly, Terry passed away two days later.

The FPA also extends its condolences to family and friends of David Martin CFP®, who also recently passed away.

David was a well-respected and passionate planner with Moore Stephens in Queensland. He was recognised by his licensee, Charter Financial Planning, for his outstanding work.

David spent 27 years in the financial planning profession and had been a CFP® practitioner for almost two decades. David is survived by his wife Jenny and two sons.

Bobbin awarded Tax Adviser of the Year

Peter Bobbin

Well-known and respected industry identity, Peter Bobbin, has been awarded Tax Adviser of the Year 2015 in the small to medium enterprise category by the Taxation Institute of Australia at its national conference in March.

As the Managing Principal at Argyle Legal and an FPA member for over 20 years, Bobbin is well-known to many financial planners for his knowledge and expertise across superannuation, taxation, estate planning and business succession. Bobbin has presented at many national conferences and local Chapters, as well as serving on the FPA Technical Working Group for over 10 years. Bobbin is also a founding director-trustee of FPA charity, the Future2 Foundation.

The Australia-wide award presented to Bobbin recognises tax professionals across all levels of experience for their professionalism, leadership, ethical standards and commitment to excellence. The judges admired Bobbin's involvement with The Tax Institute's committees and contribution to education programs through his mentoring and teaching with other tax professionals in different firms.

"These awards celebrate excellence in tax and this year's recipients represent worthy and talented professionals who are performing at the highest level," said the chief executive officer of The Tax Institute, Noel Rowland.

FPA streamlines CPD accreditation

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

Chris Pinto

"This is a straightforward change, which we believe will bring consistency by aligning the FPA's CPD accreditation to the rest of the industry."

The FPA has announced two important changes to the allocation of CPD accreditation, which will bring its CPD policy in line with the rest of the industry and other member associations. An outline of the changes, which become effective on 1 July, are as follows:

Hourly accreditation

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

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

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

Academic accreditation

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

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

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

"This is a big win for planners and for tertiary institutions," Pinto said.

However, he added that it was still the responsibility of planners to keep track of their studies by logging all their completed subjects into their CPD records.

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

CPD audits

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

The longevity risk

Q: With the FSI Report questioning the equity of superannuation concessions, and the release of the Intergenerational Report confirming longevity risk and the sustainability of Age Pension funding, what or how would you change superannuation to solve these issues?

Rebecca Fergusson CFP®

Principal and Private Client Adviser, Main Street Financial Solutions

Licensee: Lonsdale Financial Group

In light of the Intergenerational Report confirming what we already knew about longevity risk and the sustainability of Age Pension funding, any changes to superannuation need to support and encourage those in the workforce to become self-funded in their retirement.

Increasing the number of self-funded retirees will assist the Australian economy in many ways, including reducing the reliance and pressure on the Government's Age Pension.

We are currently faced with contribution caps, both concessional and non-concessional, that limit the amount of money that can be invested into superannuation. These contribution caps in themselves are becoming part of the stress that is being placed both on the Australian Government and ourselves to provide an income stream in retirement.

This is particularly relevant to pre-retirees, as these people often have the means available to substantially increase their contributions to superannuation, however, are unable to maximise their retirement benefits due to the contribution caps.

I think it would be appropriate for the Government to give consideration to increasing the contribution caps for people aged 50 and over, given there could be another 10-15 years of working life ahead of them.

This would allow this sector to save for their retirement in the tax-effective manner that superannuation was designed for and reduce the burden on the Australian Government and the social security system.

To broaden the scope of the above, the Government may also like to consider removing the superannuation guarantee contributions from being counted towards the concessional contribution cap. The implications of doing this will become more important as the SG is increased over time.

These two initiatives will allow the workforce to potentially increase and maximise their superannuation savings, which would in turn help to offset longevity risk and to assist in the sustainability of Age Pension funding.

Daryl La'Brooy CFP®

Financial Adviser, Hillross Financial Services

Licensee: Hillross Financial Services

Australia's superannuation system currently holds about $2 trillion in savings, the bulk of this money has been built up in the last 20 years with the introduction of the Superannuation Guarantee legislation of the early 1990s.

Clearly, the superannuation system has tax incentives built into it, to get people to contribute to it. However, there are a number of other areas of the economy with equally large tax benefits provided, such as Capital Gains Tax exemption on the family home and negative gearing advantages on rental properties.

It is also very apparent that with the end of the mining boom, the Federal Budget is under pressure. So, where does the Government find the money to eliminate the budget deficit?

Superannuation is an area it can target to raise revenue. Although targeting superannuation to solve the problem would theoretically be easy, given the $2 trillion pool of funds, I would advocate a more even handed approach.

All sectors of the economy enjoying tax concessions should make a contribution to the Budget repair efforts. Cutting expenditure though is proving very difficult, as every time a cut is announced, the media love giving all the affected interest groups plenty of airtime and the opposition makes political mileage out of the matter.

Given the Federal Budget amounts to about $400 billion and the Budget deficit is running at around $40 billion, a combination of tax increase and expenditure cuts are needed over time.

Already, those earning over $300,000 per annum in income are paying 30 per cent tax on super contributions. A bit like the superannuation surcharge Peter Costello introduced in 1996 to eliminate $90 billion of Government debt inherited at the time.

An idea for a contribution by superannuation would be for there to be a surcharge on those earning income above the $37,000 tax threshold. So, if the Government were looking for a few billion from superannuation contributions, a 2.5 per cent levy could go on each of the three tax brackets.

Those earning between $37,000 and $79,999, pay 17.5 per cent contributions tax. Those earning

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

between $80,000 and $180,000 pay 20 per cent contributions tax, and those earning between $180,000-$300,000 pay 22.5 per cent contributions tax.

David Woolford CFP®

Wealth Adviser, Collins SBA

Licensee: Godfrey Pembroke

With superannuation assets totalling $1.94 trillion at the end of the December 2014 quarter, superannuation represents the second largest part of the Australian financial sector. The release of the Intergenerational Report confirmed what we already know; we are living longer with a growing reliance on the Age Pension to support retirees.

In 1992, when compulsory superannuation was introduced by the Keating Government, the average life expectancy was to age 74. This life expectancy has now increased to the mid 80s and growing, which is causing serious retirement funding issues.

Longevity risk is real and financial advisers must address this when structuring a client's retirement. The FSI Report also highlights that leaving superannuation providers with the sole responsibility of creating and delivering products to their members that are aimed at protecting against longevity risk, won't deliver cost effective results.

So, with the impetus being placed back on individuals to be self-funded in retirement, superannuation must adapt to our changing demographics to allow people to continue to retire at age 60 or 65 years, not 70 or 75 years, and to have sufficient capital to minimise the longevity risk.

Continuing the trend of playing with some of the super controls, that is, pushing back preservation ages and changing contribution caps, will only continue to frustrate, confuse and turn people away from utilising super.

In order to make sure superannuation meets the changing future needs of Australians, the super structure, as we know it, needs to change. We need:

1. More flexibility in accessing super funds. Gen X, Y and Z are more likely to contribute more to super if they knew they had access to part of their super capital should they require it. This would include fixing the preservation age, so that those with sufficient capital, can still retire earlier using their super to fund their income needs
2. More financial education at an earlier age, potentially provided through schooling. This could include understanding how superannuation works, and what the benefits and risks are. This initiative could be driven specifically by the industry.
3. Superannuation product providers to look at providing a broader range of protection products. Defined benefit schemes with unfunded liabilities are a thing of the past. We need new cost effective solutions for clients in accumulation funds to protect their capital and income for their lifetime.

Wayne Leggett CFP®

Principal, Paramount Wealth Management

Licensee: Fortnum Financial Advisers

For many people, the capacity to save for retirement is severely compromised in the years when they are, typically, raising a family and paying off a home.

It is only when the kids have 'flown the coop' (and that stage is getting later with each passing year), and the 'coop' has been paid off, that most people have the discretionary income to make a serious commitment to saving for retirement.

With people living longer, and the resultant rising costs of aged care, today's pre-retirees are not only facing the prospect of not inheriting from their parents, but may even find themselves providing financial assistance to their elderly parents, and their adult children still at home, at the same time!

Older tax-payers were in the workforce for quite some time before the compulsory super regime came into existence in the early 1990s. So, unlike their younger colleagues, they will not retire with the benefit of a full working life of employer super contributions. To compensate for this, they will endeavour to save as much as they can in their later years. And, being deprived of the luxury of time on their side, they need to contribute as much as their resources will allow.

Given this scenario, the current contribution caps are not aligned with the reality of their capacity to save for retirement.

While I am not suggesting we return to the confusing regime of Reasonable Benefit Limits, which I and my grey-haired colleagues will recall with something other than fondness, it would be completely logical if the concessional contribution limits were substantially increased for older taxpayers, say from 50 up.

Increasing the limit to $50,000, as it was up until June 30, 2009, would be an obvious starting point.

Another option, ignored for too long, is to cap the means test free value of the family home for Centrelink Age Pension purposes. Politically sensitive as it may be, it just has to happen one day.

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.

A mature outlook to life

Sally Curtis CFP® used the CFP® Certification Program to gain exemptions for her Master of Financial Services degree, enabling her to demonstrate her commitment to higher education and the profession of financial planning.

Professor Martin Hovey with Sally Curtis at her recent graduation ceremony at the University of New England.

Name: Sally Curtis CFP® LRS®

Age: 52

Educational Qualifications: Master of Financial Services (University of New England), Advanced Diploma of Financial Services

Position: Principal, Financial Planning – Financial Adviser

Practice: 360 Financial Advantage (Port Macquarie, Macksville, Coffs Harbour NSW)

Licensee: Count Financial Ltd

FPA Professional Practice: No

Date of CFP designation: 11 February, 2009

Years as a financial planner: 11 years

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

After completing the Advanced Diploma of Financial Services in 2007 through Finsia, I still felt it was important to progress my formal studies in financial planning.

Being licensed with Count Financial, I work with a team of qualified accountants. I respect and appreciate the personal effort they have all put into becoming professional practitioners. I was compelled to accomplish the same level of qualifications in the field of financial planning.

At that time, I felt that attaining CFP certification was the most direct pathway to achieving my goal, because at that stage of my life, a university degree in financial planning seemed too long a journey for me.

2. Why did you decide to complete your Master of Financial Services?

After completing the final exam of the CFP Certification Program in November 2008, I promised myself and my family I would never study again. However, after taking a year off, I then completed the FPA's Life Risk Specialist® accreditation.

The following year, I still had that nagging thought that I should complete a degree qualification. That's because I supported the FPA's view that for the financial services industry to be truly recognised as a profession, financial advisers should have a degree qualification.

I was not actively searching for a course to study when in late December 2010, I received a brochure from the University of New England (UNE) promoting its recently released Bachelor of Financial Services and Master of Financial Services degrees.

Foremost, committing to the Masters degree was something I wanted to do for myself, as it would enable me to achieve the goal of being degree qualified. However, I also felt it was important to do this degree as a way of promoting financial planning as a profession, to become equally qualified with my accounting colleagues, and to demonstrate to our clients my commitment to achieving the highest education standards in financial services for their best interests.

Before I had read through the course descriptions in detail, the mental image of my parents attending my graduation ceremony confirmed my personal commitment to enrol and chase my goal.

3. How were you able to use the CFP Certification Program to gain exemptions for the Masters program?

Professor Martin Hovey at UNE works closely with the FPA and is very familiar with, and recognises, the high standard of the CFP Certification Program.

He was initially surprised by my application to the Masters degree, as I did not hold an undergraduate degree. However, he acknowledged and respected my CFP practitioner status and work experience, and committed to undertake an analysis of the CFP modules against the financial planning units of the Masters degree. I believe he also discussed

my application with his colleagues at other Australian universities.

Three months after submitting my application, Professor Hovey confirmed my application was successful and I would be granted advanced standing for four of the required 12 units towards the Masters degree.

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

Legislation is subject to frequent change, so ongoing education is vital in keeping your knowledge current, in order to continue to provide appropriate advice to clients. This is achieved through regular professional development training and courses.

However, structured education, as a means of entering the industry, is also very important as a means of ensuring that the financial services industry gains the professional recognition it should have. Short courses that provide minimal entry qualifications are no longer appropriate in the industry. As such, I support the change towards raising the standard of education.

5. As a mother of six, how do you manage your work/study/life balance?

Our six children have all reached adulthood, with our youngest turning 18 the day after the final exam of my Masters degree in October 2014.

However, during the many years of study, as the four youngest moved through teenage-hood, the HSC and on to university, my husband filled the vital role of chief cook and shopping expert, while I oversaw the laundry and house cleaning responsibilities. During this time, I managed to fit in study after work and on the weekends.

It's actually great studying with teenage kids at home because they have similar commitments, pressures and challenges to your own. We were 'study buddies' and occasionally rewarded ourselves with a special 'one-on-one' holiday to fit in around our study schedules, although I do recall studying by torchlight while on cycling/camping holidays.

Living in a small town by the beach provides plenty of life balance, as does being able to regularly cycle to work in the countryside.

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

There are many challenges being a financial planner. These include: keeping up with the constantly changing legislation and increased compliance requirements; serving clients in a timely, efficient and compliant manner while keeping the cost of such service acceptable to the client; finding appropriately qualified and experienced staff; and training new staff.

Having a dedicated and motivated support team is critical to achieving client satisfaction. It is difficult for an adviser to achieve the required level of service without the wonderful support of team members.

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

Rolling out higher minimum education standards is the most challenging aspect facing the profession. I am in full support of this process, which will further promote the professionalism within the industry.

The requirement for accountants to be licensed from 1 July 2016 to provide SMSF advice presents a new challenge, as this area of expertise is now captured under financial services legislation.

Consumer campaign targets

The FPA has launched a national consumer advertising campaign to raise awareness of the CFP® mark in Australia.

Funded by an advertising levy from CFP® practitioner members, the campaign is called 'It's all you need to know'. The creative is designed to cut through marketing clutter and deliver a simple, clear message to consumers about the credentials of a CERTIFIED FINANCIAL PLANNER® professional.

The campaign will inform consumers about the international recognition of the CFP mark, as well as the high education, professional and ethical standards that the mark represents. Consumers will be directed to the 'Find a Planner' tool on the FPA website, which will help connect consumers to a CFP professional in their local area.

"Featuring a new brand line, 'The sign of good advice', the campaign will start to engrain the term 'CERTIFIED FINANCIAL PLANNER' into the vernacular of consumers," said FPA Head of Marketing, Fosca Pacitto. "Holding the CFP designation is something to be proud of and our goal is to create an appropriate level of recognition for those who have achieved it."

The campaign, which started in mid-April, will run through to the early part of the new financial year. Advertising will be integrated across digital, print and radio, according to media consumption patterns of the primary target audience – Australians aged 40-65 years, who represent the demographic most receptive to messages about financial advice.

Print advertising will run in both national and regional newspapers, along with radio advertising on metropolitan and regional stations. Online activity will include both high traffic and niche websites. The online activity will be complemented by a sophisticated digital search engine campaign to support traffic to 'Find a Planner' and capture the attention of consumers already searching for financial advice.

To support the advertising campaign, the FPA has developed a consumer brochure

Radio coverage

The following radio stations will be used for the consumer campaign:

ACT

Canberra – MIX 106.3

NSW

Sydney – 2GB, WSFM
Newcastle – KOFM
Wollongong – Wave FM
Tamworth – 2TM
Port Macquarie – 2MC
Coffs Harbour – 2CS
Wagga Wagga – 2WG
Taree/Forster – 2RE
Albury – The River
Broken Hill – 2BH
Bathurst – 2BS
Orange – 2GZ
Far North Coast NSW – 2LM
Gosford – 2GO

VIC

Melbourne – 3AW
Geelong – BAY FM
Ballarat – 3BA
Bendigo – 3BO
Gippsland – 3GG
Mildura – 3MA
Goulburn Valley/Shepparton – 3SR

QLD

Brisbane – 97.3FM
Gold Coast – GOLD 92.5
Townsville – 4TO
Toowoomba – 4GR
Rockhampton – 4RO
Bundaberg – 4BU
Sunshine Coast – MIX 92.7
Mackay – 4MK
Cairns – 4CA

WA

Perth – MIX 94.5, 6PR (882AM)

SA

Adelaide – MIX 102.3
Port Pirie – 5CS
Port Augusta – 5AU
Berri – 5RM

NT

Darwin – MIX 104.9

TAS

Hobart – Heart 107.3
Launceston – LAFM

awareness of CFP® mark

Fosca Pacitto

At the FPA, we are very passionate about building the CFP brand in Australia.

that CFP professionals can use with their own clients. The brochure explains the basics of financial planning, as well as the key messages from the campaign.

"This brochure will be available to CFP professionals later this month, along with an electronic signature bearing the new brand line. We hope our members will use it as part of their own marketing toolkit," Pacitto said.

"At the FPA, we are very passionate about building the CFP brand in Australia. We will, of course, be measuring our success closely, to ensure the CFP advertising levy works as hard as our members do. And as we measure, we will adapt and keep striving for better and better results," Pacitto said.

The FPA will measure the success of this consumer campaign through valuable member feedback, online click-through rates, and traffic to 'Find a Planner'.

"We have also started annual brand tracking to help us measure our success over a longer period of time," Pacitto said. "Raising awareness and reaching a critical mass of consumers cannot happen overnight. Brand tracking is the best way of ensuring our advertising resonates and stays with consumers."

For more information about the campaign, visit www.fpa.asn.au

All in print

The campaign will appear in the *AFR* and *The Australian*, and the following metropolitan and regional newspapers:

ACT

Canberra Times

NSW

Sydney Morning Herald
Northern Daily Leader
Port Macquarie Express
Coffs Coast Advocate
Newcastle Herald
Illawarra Mercury
Lismore Northern Star
Central Western Daily
Western Advocate
Wagga Daily
Manning River Times
Great Lakes Advocate

VIC

The Age
The Border Mail
Shepparton Adviser
Geelong Advertiser
Ballarat Courier
Daylesford Advocate
Bendigo Advertiser
Gippsland Times
The Wimmera Mail Times
Sunraysia Daily

QLD

Courier Mail
Gold Coast Bulletin
Townsville Bulletin
Toowoomba Chronicle
Rockhampton Morning Bulletin
News Mail
Sunshine Coast Daily
Daily Mercury
Fraser Coast Chronicle
Cairns Post

NT

Northern Territory News

SA

Adelaide Advertiser
The Flinders News
Port Pirie Recorder
The Transcontinental
Whyalla News
Murray Pioneer (Berri/Renmark/Mildura)
Barrier Daily Truth (Broken Hill)

WA

West Australian

TAS

Hobart Mercury
Launceston Examiner

I acknowledge that the main benefit of being an FPA Professional Practice is knowing that the whole business is fully committed to being professional.

Name: Raimon Lewandowski CFP®

Age: 36

Qualifications: Bachelor of Commerce, Graduate Diploma of Applied Finance and Investment, Advanced Diploma of Financial Services (Financial Planning), Professional Certificate in Self-Managed Superannuation Funds

Position: Director/Financial Planner

Practice: MBA Financial Strategists

Licensee: AMP Financial Planning

Years as a financial planner: 11

CFP® designation: 2006

This spirit of professionalism

The Cbus referral program was an incentive for MBA Financial Strategists to sign on as an FPA Professional Practice, but as Raimon Lewandowski CFP® discusses, the real benefit of being an FPA Professional Practice is the culture of professionalism it instils within a business. Jayson Forrest reports.

The October 2013 agreement between the FPA and industry superannuation fund, Cbus, was another defining moment for the planning profession, as it brought both the industry super fund sector and the financial planning profession closer together. The agreement enables CFP® practitioners working in an FPA Professional Practice to accept referrals from Cbus members seeking financial planning advice.

It was also this significant announcement that convinced Adelaide-based practice, MBA Financial Strategists, to become an FPA Professional Practice in early 2014, towards the end of the initial pilot program.

"To be honest, when the FPA first launched the FPA Professional Practice brand, we didn't really know too much about what the brand was all about," says MBA Financial Strategists director, Raimon Lewandowski CFP®. "But when the Cbus referral program was announced, we looked at our business and thought this referral program was a great opportunity to provide advice to industry fund members. So, pragmatically speaking, this underscored our motivation to sign up to the FPA Professional Practice program."

As a director, equity owner and planner of the practice, Raimon said meeting the FPA's criteria for becoming an FPA Professional Practice was relatively straightforward. Already, well over 50 per cent of the practice's planners were CFP certified, the practice was fee-for-service, and it strictly adhered to the FPA's Code of Professional Practice and Code of Conduct.

"So for us, it was a fairly simple process to become an FPA Professional Practice," he says. "Our dealer group gives us regular compliance audits, which we always perform very well in. And as we have 20 staff in the business, we're always ensuring that our processes are working well and are effective."

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"At the end of the day, it's all about helping Australians take control of what they're doing and helping them to maximise their retirement savings, while protecting and growing their wealth."

MBA Financial Strategists currently employs eight client facing financial planners, with five of these being CFP professionals. Raimon adds that one young planner is currently studying for his CFP certification, and two other planners, who were recently hired, will also be encouraged to undertake the CFP Certification Program.

Cbus

Raimon doesn't regret the practice's decision to become an FPA Professional Practice and applauds the FPA's initiative to broker the client referral deal with Cbus.

On average, MBA Financial Strategists receives about one referral a week from the Cbus referral program, with an almost 100 per cent conversion rate. He adds that most of these referrals are clients looking to transition to retirement, which is something the practice is well-equipped to handle.

"We definitely can help these Cbus clients who are all looking for quality advice. So far, all the clients I have seen, except for one, have taken my advice, have paid our standard fees and have received an amazing experience out of that," he says.

Raimon personally attended one of the Cbus financial planning referral seminars it organised for its members, saying it was a valuable experience to be involved with.

"There were about 50 Cbus members at the seminar. Cbus explained to its members about the referral program and what it meant for members to work with an FPA Professional Practice. Towards the end of the seminar, I was identified as being a representative from an FPA Professional Practice. So from that initial seminar, there were 12 people who wanted to meet with me. Of those 12 people, I have since provided comprehensive advice to 11," Raimon says.

"It's a great result, and each of those clients is many thousands of dollars better off per year as a result of implementing my financial advice recommendations. It's a huge win for the clients, for our business and for the profession."

MBA Financial Strategists is currently only involved with the Cbus referral program and not with Sunsuper, purely because, as Raimon says, it's more Queensland-based.

"Obviously, we would become involved with the Sunsuper program as well, but we just don't believe there are any referrals for us in Adelaide. But it's an opportunity I think we should better investigate."

The 36-year-old praises the industry super fund referral program, saying it was a great initiative undertaken by the FPA.

"At the end of the day, it's all about helping Australians take control of what they're doing and helping them to maximise their retirement savings, while protecting and growing their wealth. That's the end game, and the more of that we can do, the more satisfying it is for us as planners, knowing that we are improving the lives of the clients we are seeing."

Benefits

Having now been an FPA Professional Practice for just over one year, Raimon concedes the benefits of the Professional Practice brand extends much further than simply receiving industry fund referrals.

"I acknowledge that the main benefit of being an FPA Professional Practice is knowing that the whole business is fully committed to being professional," he says. "This commitment to professionalism has promoted a good culture for our staff and business, because everybody knows – both internally and externally – that our planners are properly educated and are striving to do the best job for their clients.

"Being an FPA Professional

FPA Professional Practice criteria

In order for a financial planning practice to be recognised as an FPA Professional Practice, it must first meet four criteria. These are:

1. A financial planning practice must have at least 75 per cent of practitioners registered as FPA members.

2. At least 50 per cent of the practice's planners are either a CERTIFIED FINANCIAL PLANNER® professional or are in the process of achieving the CFP designation (within three years).

3. The practice must be prepared to uphold the FPA's Code of Professional Practice.

4. The practice agrees to conduct a three yearly review to confirm adherence to the licence criteria described above.

Practice also means it's a great way for our junior staff to learn from the practice's established planners, the majority of whom are CFP practitioners. So, from a cultural perspective, being an FPA Professional Practice is very important, particularly for a business like ours that has a little bit of size to it."

But in terms of what the brand actually means to his clients, Raimon is less certain.

"I don't think clients actively look for an FPA Professional Practice. I think it's still early days yet for the brand, so it's up to the FPA and the wider profession to do a better job in promoting the benefits of dealing with planners who belong to an FPA Professional Practice."

However, he believes the FPA Professional Practice brand will perhaps be more attractive to new clients who don't have a trusted relationship with a planner, like those from the Cbus referral program.

"New clients, like those referred to us from Cbus, understand that only planners who are the 'best-of-the-best' get to see Cbus clients. And those planners need to jump a lot of hurdles, which means they need to be a CFP practitioner, they charge fee-for-service, and they need to belong to a practice that adheres to the FPA's Code of Professional Practice and Code of Conduct.

"So, I think for newer clients, it is becoming increasingly more important for them to deal with an FPA Professional Practice. By doing so, they can be confident in the ethics, standards and professional competency of the practitioners and practice they are dealing with."

Promotion

MBA Financial Strategists prominently promotes the FPA Professional Practice brand at the top of its website. It does so because the website tends to be the first point of contact for new clients.

"Generally, when you're looking for something, you will do a Google search and find the appropriate web page. So, people who find us via Google, will see both the FPA Professional Practice logo and our company logo prominently displayed at the top of our website."

Raimon adds that at the moment, the FPA Professional Practice brand only appears on the practice's website, but including the brand on the practice's letterhead and email signatures is likely to happen in the near future.

Elevation

As to whether the FPA Professional Practice brand will help elevate the financial planning profession amongst consumers, Raimon is circumspect.

"It really depends on how the FPA promotes the brand," he says. "For me, the benefits of dealing with an FPA Professional Practice and the criteria it must meet and adhere to can be seen as real safeguards for consumers. It also provides them with the reassurance they are dealing with professionals in that business who are adhering to the highest professional standards and code of conduct."

But he quickly adds that the real benefit of being an FPA Professional Practice is the internal culture it creates within an organisation, and the promotion of higher professional standards of its planners.

"Encouraging young planners in the practice to complete the CFP Certification Program, while ensuring they adhere to the FPA's Professional Code of Conduct, can only be a good thing for the future of financial planning in this country. It's this level of professionalism fostered by being an FPA Professional Practice that benefits consumers and planners alike."

Future

When it comes to the future of the profession, Raimon is buoyed by the work done by the FPA, the Board and former chief executive officer, Matthew Rowe CFP, in transitioning the financial planning industry into a profession. But he adds, the journey is not yet complete. "I would like to see more planners 'step-up' to being a professional and being proud of it."

With numerous qualifications under his belt, Raimon is happy to walk the talk.

"We still only have about 5,500 CFP professionals in Australia but we need more," he says. "Planners need to commit to higher education standards and ongoing education. Our profession needs to be fee-for-service with absolutely no product incentives. I know this is going to be tough for some people but it's necessary if we want to be a profession."

But it's not all work for Raimon. While he admits to sharing a heavy workload with his colleagues at MBA Financial Strategists, he still finds time to cycle and explore the food and wine scene that South Australia is so well-known for.

"And I'm quite a passionate micro beer brewer, though I haven't brewed for a couple of years," he adds. "My particular interest is fresh 100 per cent natural beers that take up to three months to ferment and develop in a bottle. That may seem like a long time, but just like a good financial plan, it's worth the wait."

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

When the going gets tough

The Australian risk market is a tough and competitive business, and things are only going to get tougher. But as Janine Mace discovered, the insurance industry is adjusting and adapting to change.

When it comes to the Australian risk market, the statement – 'It's a tough business and it's going to get tougher' – seems to sum up the current situation pretty well.

In such an environment, planners are likely to find dealing with risk insurance increasingly tricky, explains Deloitte insurance partner, Paul Swinhoe.

Whether it is rising premiums and new definitions in the group market, demands for greater efficiency in retail, more competition from the direct channel, or simply increased scrutiny from regulators, writing risk business is becoming just plain tough.

"The insurance industry is not immune to change. Planners are facing disruption in the insurance market and the Trowbridge Report doesn't help them," says Swinhoe.

The report, commissioned by the Financial Services Council, was prompted by the highly critical Australian Securities and Investments Commission (ASIC) report into advice in the life industry and is emerging as a major turning point for the sector. Its recommendations to cap upfront commissions on new life insurance policies written by planners is creating significant waves, with some claiming it will drive advisers out of business.

Jenni Baxter, senior consultant at Rice Warner, agrees the life market is shifting. "This is a massive period of change in both

the group and retail markets. Currently, both markets are reflecting on the way forward in the face of the changing dynamics."

She expects adjustments to continue as insurers review their products. "However, these are great pre-conditions for innovation and we will see some exciting new products come from it."

New technology is also making life tougher for advisers. "Planners are facing competition from growing online offers and they will need to find ways to source leads more cheaply," Swinhoe says.

"Insurers are increasingly looking at direct sales, as consumers now go online to research purchases, so going online with direct offers will be successful. This is a change in behaviour by insurers."

Growing role of risk business

All these changes in the risk market are significant for planners because life insurance is playing an increasingly important role in their practices, according to the Investment Trends *June 2014 Planner Risk Report*, which surveyed 885 planners.

As research analyst King Loong Choi explains: "Nine out of 10 planners advise on risk and this has been steady over the past five to six years. But what is new is in 2013-14, insurance became increasingly important, as 29 per cent of practice revenue was from risk, whereas in the previous year it was only 27 per cent."

This rising importance is occurring against the background of an extremely spirited market.

"The insurance space is fiercely competitive and insurers need to constantly improve their offering to retain market share. An example of the changing market is BT Life, which was not around a few years ago, but now has one in three planners using it," Choi notes.

Practices are also expanding their suite of insurers and switching between providers if they are not exceptional. "For the period 2010-13, planners used on average 3.8 insurers at the start before dropping to 3.4. But in 2014, we saw this reverse and planners used 3.7 insurers on average," Choi says.

Premiums up, benefits changing

Demanding planners are only one of the challenges facing insurers – particularly those operating in the group market.

"It has been an interesting time in the group market in recent years. It has seen significant profitability decreases and there have been a number of challenges for all stakeholders," explains Jenny Oliver, TAL's general manager commercial services.

"The group market has been disrupted and everyone has had to work hard to change product design and pricing to ensure it is sustainable going forward."

Much of the upheaval has been due to the very poor claims experience for disablement cover. This has resulted in some insurers leaving the market, while the remaining insurers and superannuation funds have been forced to lift premiums and reshape products to restore profitability and ensure ongoing market viability.

"Trustees and insurers have discovered a common interest in providing sensibly priced insurance for members. This has led to [group] changing from a buyer's to a seller's market," Swinhoe says.

Baxter agrees there has been a major repricing in the market. "We have seen premium increases over the past two years for group and we expect to see this continue over the next 12 months."

Products have also gone under the microscope. "We have seen product and definition changes come through and expect to see that continue. Tightening of eligibility requirements is due to insurers needing to provide sustainable products going forward," she explains.

The turmoil has seen providers respond in other ways. "Insurers have been investing heavily across their offerings in terms of product, claims experience, claims management, and rehabilitation and early intervention tools," Oliver notes.

"We have needed to come up with alternative claims management processes and benefit designs. It has also been important to shift the focus onto a return to wellness, rather than simply paying claims."

Insurers are trying to fix soaring premiums and convoluted products, Oliver says. "The industry is aiming to improve transparency and reduce complexity, so group cover complements a client's retail insurance."

Despite the upheaval, TAL's general manager individual life, Gavin Teichner, believes the repricing process has been valuable.

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"Now customers have a greater choice and there is more choice for advisers as well."

Changing strategies affect retail

The retail channel has not been immune to the pressure, particularly in light of the concerns about product 'churn' highlighted by ASIC.

"Insurers are still making money from death cover, but we are seeing higher lapse rates and this may lead to changes in product design. The causes of lapsed policies are often churn, but concerns about that may be overblown. If it is done for the right reasons, it is valid," Swinhoe argues.

Despite the concerns, planners are still embracing risk products and using them in new ways to develop appropriate protection for their clients.

"The big trend is the amount of business being funded out of superannuation funds. Over the past 12 months to two years, we have increasingly seen planners funding some of their clients' insurance needs out of their super," explains Niall McConville, TAL's general manager retail distribution.

There are both tax and cash flow benefits with this approach, as it allows higher levels of cover for clients who may not otherwise have the capacity to pay. "The client might take $500,000 cover through a super fund at a level premium for their foundation cover and then another $500,000 on a stepped premium. It is a good strategy, as the cover changes to meet the client's changing needs," he says.

Teichner believes the trend reflects a changing attitude towards superannuation and an appreciation by planners that group and retail insurance are not 'one-or-the-other' options. "Retail is complementary to group cover, with retail cover providing a top-up for clients. The trend is also about the way people look at their overall savings and wealth. Increasingly, they see super as a wealth vehicle they can use."

Pushing for efficiency

The retail channel is also seeing an increasing push for improved efficiency, particularly around the underwriting process.

"Planners want underwriting to be faster and more consistent. They want online applications and things like pre-populated forms and easy ways to change insurance details. This type of thing was very important in the 2014 survey," Choi notes.

Insurers are responding, with 20 per cent of TAL's policies now using telephone applications.

"With tele-underwriting, the insurer takes the client through the process, not the adviser, which leads to greater efficiencies for both planners and customers. It is also a more professional approach, as insurers have specialist medical teams," Teichner explains.

McConville says there is a "massive will" among insurers to conqueror life business inefficiencies and improve planner and client interactions. He cites the example of increasing cover amounts. "It is not the easiest process, but we need to make it as easy as the application process."

According to Swinhoe, greater efficiency is the main focus in a competitive marketplace.

"Pricing is unlikely to change, but efficiency all the way through the insurance process is likely to come under big pressure."

This includes at the claims stage.

"Tele-claims are starting to become a big thing for insurers. In the past 18 to 24 months, it has increasingly been used for short, sharp claims as there are greater efficiencies for both life insurers and planners," McConville says.

Paying attention matters

In light of these developments, planners need to take a fresh look at the risk market.

"A key message for planners is more change is coming and they need to keep a close eye on what happens in both the group and retail markets," explains Baxter.

Although fall-out from the Trowbridge Report is top-of-mind, it represents only part of the picture, she says. "The only certain thing is that change will continue to happen."

This means practices will need to respond. "Planners should focus on where they can add value and that is, on the human aspect, and combine that with efficient processes," Swinhoe says.

"They need to improve their success rate and efficiencies throughout the insurance process. A good process from start to finish can make a big difference in the insurance area."

Teichner agrees planners need to get on board and ensure their businesses are efficient: "One of the overarching themes is to remain competitive. Insurers and planners need to be increasingly efficient and they also need to work together. Efficiency and a relentless focus on the end client are essential."

"A key message for planners is more change is coming and they need to keep a close eye on what happens in both the group and retail markets."

- Jenni Baxter

The Planner Perspective

Financial Planning asked Sandy Hopps CFP® of Strategic Planners in Toowoomba, Queensland, and Scott Brouwer CFP® of Prosperum Wealth in Brighton, Victoria, to share their views about the current risk insurance market.

Q: How many insurers does your practice use?

Sandy Hopps (SH): While our licensee does not exclude any life company's products from its approved product list, we are required to undertake whatever individual research is necessary to ensure our insurance recommendation is suitable for the client concerned. So in practise, we can use any insurance company we wish. However, we do tend to have some 'favourites' due to product design or claims experience.

Scott Brouwer (SB): We currently use a panel of four insurers, however, where necessary, we will use other insurers as appropriate.

Q: Market research shows many planners are increasingly switching between insurers. Is this the case in your practice?

SH: No, unless there is a significant benefit for the client. We tend to provide recommendations on quality products and retain these policies, so that clients can receive loyalty bonuses and other benefits associated with the product.

SB: Due to the underwriting process, we try not to change providers, but of course, if it's in the client's best interest, we will offer an alternative insurer.

Q: What type of extra functionality would you like to see from insurers?

SH: It would be beneficial if all product providers offered an automatic upgrade on their products when new features and benefits are added, as it's unfortunate to see clients required to retain older style products due to changes in health.

SB: The underwriting process is often time consuming and delayed when reports are requested of medical personnel, so if this process could be made more efficient that would be valuable.

Q: With the group market consolidating, are you looking more closely at these offerings in clients' super funds?

SH: Where relevant, we may recommend a group insurance offer. However, we generally recommend a mix of insurance structures, due to the restrictions associated with insurances within a superannuation environment.

SB: Group cover can be advantageous for some clients, although for others the cost is not as economical as individual cover, and the individual cover can be more tailored to the client's needs.

Q: Are you seeing increasing client interest in taking out risk cover?

SH: We haven't seen a substantial increase in clients wanting insurance cover, but do cover this as part of any prospective client wanting to develop a financial plan.

SB: Clients are not interested in taking out cover, but the need for cover is increasing due to rising levels of personal debt.

7 tips for managing currency risk

With investors increasingly looking to tap into larger and more varied opportunities afforded by international investments, Jonathon Shead shares his seven tips for investors looking to not only manage but use currency movements to their advantage.

While international investments have the potential to deliver real benefits to your clients, they also expose them to currency fluctuations. Currency can turn a loss into a profit — or vice versa. Fortunately, with the right strategy, you can not only manage currency movements, but use them to your clients' advantage.

Investing offshore

The impact of currency

Allocating funds to international assets has the potential to deliver real benefits to your clients – especially at a time when key global markets are at last gaining momentum. Investing offshore enables clients to access a vastly larger and more varied investment universe, so they can:

- Access companies, sectors and assets with different economic and growth profiles to those found onshore.
- Benefit from the growth and income-producing potential of industries either underrepresented or unavailable on the Australian market.
- Reduce overall portfolio risk through more effective diversification.
- Resolve the severe concentration risk inherent in Australian investment markets — including an equity market heavily dominated by just two sectors, materials and financials.
- Benefit from structural trends across the global economy, including ongoing growth in emerging markets.

Turning loss into profit

Yet investing offshore also introduces an important new variable to the investment equation: currency.

Since floating in 1983, the Australian dollar has been one of the most actively traded and most volatile currencies around the globe. In fact, currency movements can sometimes outweigh raw investment returns, turning a loss into a profit — or vice versa. As a result, the total return from an overseas investment effectively has two parts:

Return = Changes in the foreign price of the investment + Exchange rate movements.

Winners and losers

Hedging your clients' exposure

This prompts the question: should you hedge your clients' foreign currency exposure, removing the effects of exchange rate movements altogether? Or should you seek to turn them to your clients' advantage?

In some years, hedging a portfolio's exposure to foreign currencies would have boosted returns significantly. Take 2009 for example.

In that year, global equity markets rebounded strongly after the financial crisis. Before allowing for exchange rate movements, international shares were up 26 per cent for the year (as measured by the MSCI World ex-Australia index). However, the Australian dollar rebounded so strongly during the year that an unhedged investor would have done well to break even[1] on international shares after allowing for exchange rate movements. As a result, in 2009 hedging would have boosted returns by around 27 per cent[2].

But of course, it also works in reverse. In 2013, international shares had another strong year, rising 29 per cent[3] before allowing for exchange rate movements. However, this time the Australian dollar fell during the year, turning an impressive 29 per cent return into an astounding 48 per cent gain[4] for unhedged Australian investors. In 2013, hedging would have cost over 15 per cent in performance.

To make matters worse, a good hedging decision for an Australian investor is, by definition, a bad decision for an investor in another country. If, in any given year, an Australian investor benefits by holding an unhedged US investment, then a US investor will lose out by holding an unhedged Australian investment. In a year when the Australian dollar rises against the US dollar, by definition, the US dollar falls against the Australian dollar.

That brings us to my first two tips for international investors:

Tip 1: Playing short-term currency movements is difficult, even for the experts. Unless you are particularly skilled in foreign exchange, set a long-term strategy and stick to it.

Tip 2: Choose a strategy that suits your base currency. A strategy that suits a US or UK investor may not suit an Australian investor.

Setting a strategy

Balancing risk and return

How, then, do you develop a personalised strategy for each of your clients? The key is to achieve the right balance between the two dimensions of currency strategy: risk and long-term returns.

Risk – the first dimension

No one likes uncertainty. One of the axioms of modern finance theory is that, all other things being equal, investors prefer stable assets to volatile assets. As a result, risk often plays a central role when investors set a currency strategy, especially for defensive assets.

For example, most people who invest in international government bonds choose to hedge their currency exposure. That's because hedging an international bond portfolio dramatically improves the certainty of returns.

Unfortunately, the picture is much less clear for risky assets like international shares. History suggests that international

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Things to consider

- Investing offshore gives your clients access to a larger and more varied investment universe, with opportunities for growth and income that are simply unavailable in Australia. But international investments also expose clients to currency risk.
- While hedging protects your clients against adverse currency impacts, it can lead to lower returns if the A$ falls. And although hedging is an effective strategy for reducing the volatility of defensive assets, it can actually increase the volatility of returns from growth assets like international shares.
- By determining where the dollar is trading in comparison to its fair value, then setting your strategy accordingly, you can help clients benefit from long-term currency movements.
- Targeting the right hedging level across a client's total portfolio is the key to achieving an optimal balance between reducing currency risk and maximising returns.

shares remain risky whether or not you hedge the currency exposure.

Figure 2 shows the impact of currency on the riskiness of international shares over each five-year period since the float of the Australian dollar. From the late 1990s, leaving currency exposures untouched has tended to reduce the risk of an international share portfolio.

How is that possible? It happens because the Australian dollar has tended to rise and fall largely in sync with international shares. That has allowed investors to make money from positive currency fluctuations when they are losing on global equities, and to make money on international equities while losing on the currency.

However, it's important to understand that:

- International shares remain risky regardless of whether you hedge currency or not.
- While the tendency over recent history has been for currency risk to help to reduce overall risk, it is only a tendency, not a law. There have also been periods where currency risk has increased the overall portfolio risk for international equities, and it's quite possible that the relationship observed over the last 20 years may not be sustained in future.
- While this analysis is true for Australian investors, it does not apply to, say, US or UK investors. When considering any analysis of currency and risk, it's essential to ensure that it is appropriate to your own client's base currency.

That brings me to my next two tips:

Tip 3: Investors commonly hedge 100 per cent of the currency risk for defensive international investments like government bonds. For these assets, history suggests that removing currency fluctuations dramatically improves the stability of returns.

Tip 4: In contrast, Australian-based investors who focus solely on reducing volatility will tend to only hedge a small part, if any, of their international share investments.

Return – the second dimension

While volatility is important, it is not the only element to consider. After all, if variability of returns was the only consideration when investing, we would all invest in cash. Clearly, potential returns will also play a large part in your clients' investment decisions.

As a result, the unhedged strategy outlined in Tip 4 can be a questionable one, depending on current exchange rates. While remaining unhedged might reduce volatility in an international share portfolio, greater stability can come at a cost. So how do you set a sensible hedging strategy that allows for better longer term returns?

Finding fair value

For investors seeking to develop a longer-term currency strategy designed to enhance returns, understanding where the Australian dollar is trading relative to its long-term averages is an important first step. We normally expect currencies to revert to their long-term fair value at some point in the future. While it may take years in some cases, we still expect that reversion to occur, resulting in return opportunities for investors.

However, you also need to be careful not to assume that the average value of an exchange rate over the last 20 years is, in fact, its long-term fair value. Our research[5] suggests that the longer term fair value between two currencies will be driven by factors like inflation, terms of trade and changes in productivity.

Anecdotally, we saw a number of large investors reduce or remove their currency hedges as the Australian dollar reached new highs in 2011 and 2012, on the expectation that it would fall towards fair value at some point in the future. Similarly, we have seen a number of large investors start to re-introduce currency hedges as the Australian dollar has declined. Whether it has further to fall before it reaches its current fair value remains to be seen.

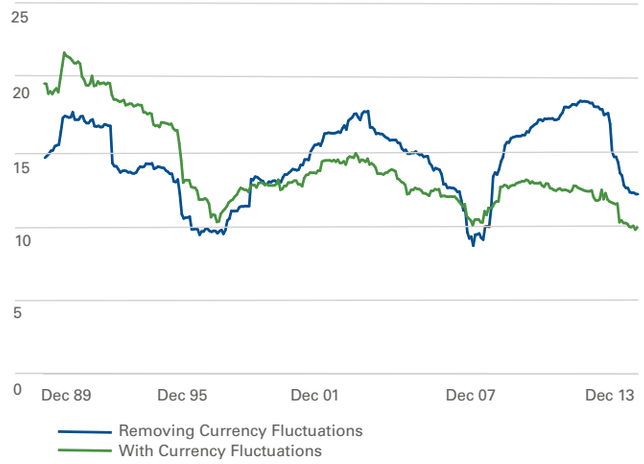
Figure 1: Hedging is not always a winning strategy

Rolling 12 month profit or loss on A$ hedge
MSCI World ex Australia Portfolio for Australian Investor

Source: SSGA, MSCI.

Figure 2: In sync: International shares and the Australian dollar

Rolling 5 year volatility for international shares (%p.a.)
Australian Investor



Source: SSGA, MSCI

Looking beyond the US

We'll start by observing that international shares involve more than just the US. While for many investors, the current level of the Australian dollar simply means the Australian dollar/US dollar (AUD/USD) exchange rate, the reality is that only half of a typical international share portfolio is invested in the US. The other half will be exposed to currencies like the Japanese Yen (JPY), UK Pound (GBP) and the Euro (EUR).

All of these currencies have traded in a large range against the Australian dollar over the last 25 years. Some of those changes have been sharp and sudden, as shown in Figure 3 — and only a few have occurred in sync with similar fluctuations in other currencies.

That brings me to tips 5 and 6:

Tip 5: Be aware of whether the Australian dollar is at long-term highs or lows when setting a client's currency strategy. Remember to consider the GBP, EUR and JPY exchange rates as well as the USD — and be aware that 'long-term' in this case means a decade, not a year.

Tip 6: Be patient. Currencies can move away from fair value for long periods of time, and picking short-term currency movements is notoriously difficult. Currencies can move quickly in both directions. Unless you are a foreign exchange expert, avoid rebalancing too often or too quickly in response to currency movements.

Bringing it together

Setting the right level of exposure

Having determined each client's preferred balance between risk and return, you are well on the way to developing their personalised currency strategy. But there is one more important step you need to take before putting that strategy into action.

When experienced institutional investors assess currency risk, they think about its impact at the total portfolio level, not its effect on each asset class. Instead, they aim for a pre-determined level of currency exposure across the entire portfolio, then hedge individual asset classes accordingly.

Understanding the overall level of foreign currency exposure you want to achieve in each client portfolio can be much more important than setting the hedge ratio for each asset class. For example, the decision to hedge 50 per cent of a client's international growth assets has a much greater impact than the choice to implement the hedge in their holdings of international property, rather than their international shares or infrastructure assets.

That brings us to my final essential tip for international investors.

Tip 7: Understand how much foreign currency exposure each client has across their entire portfolio. Consider the impact of exchange rate movements at the portfolio level, rather than within individual asset classes.

Earning interest on your currency hedge

Most investors understand that a currency hedge protects them against adverse interest rate movements by paying a return when the exchange rate moves against them. But many don't realise that a currency hedge offers a second kind of return, a bit like earning hidden interest. This is sometimes called the 'carry' part of the return, and it can make hedging much more attractive for Australian investors.

When an investor takes out a currency hedge, they earn interest at their local ('base') rate, while paying interest at the foreign rate. Since Australia has had higher interest rates than most other developed nations for many years, the 'carry' earned by Australian investors has historically been positive. As at January 2015, it is currently around 2 per cent per annum[6].

Jonathon Shead, Head of Portfolio Strategists, State Street Global Advisors Asia-Pacific.

Figure 3: Australian dollar exchange rates can vary dramatically across currencies

Source: SSGA, MSCI

Footnotes

1. MSCI World ex Australia Index return (net of WHT) for 2009 was -0.30%.

2. MSCI World ex Australia A$ Hedged Index return (net of WHT) was 26.71% for 2009.

3. PMSCI World ex Australia Index return (net of WHT) in local currency return 29.18%.

4. MSCI World ex Australia Index return (net of WHT) in A$ 48.03%.

5. Colin Crownover, 'The new rules for when to hedge a currency', IQ, Autumn 2014, State Street Global Advisers.

6. WM Reuters, MSCI.

Super death benefits and financial dependency

WILLIAM TRUONG
IOOF

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Defining financial dependency**
- **Dependency and superannuation law**
- **Dependency and tax law**

The payment of super death benefits and the taxation of those benefits have always been complicated, especially when the benefit is not being paid to the spouse or children of the deceased.

For example, it is often the wish of many grandparents to leave part of their super benefits directly to their grandchildren (rather than through their estate) but find they may not be able to do so, given they may not be living with each other as required under the 'interdependency' definition. However, unlike an interdependency relationship, financial dependency does not require the two to live together.

Where the interdependency definition is unlikely to be met, being 'financially dependent' can result in a recipient receiving super death benefits tax-free.

Not being financially dependent can result in thousands of dollars in tax, or worse, the beneficiaries not being entitled to any super death benefits. This article examines the tests for establishing financial dependency, as well as the planning opportunities.

The opportunity

Establishing financial dependency can lead to many opportunities. Consider the following:

Where a grandparent has died aged 60 or over, financial dependency of a grandchild on the grandparent enables the grandchild (even for adult grandkids) to receive a tax-free superannuation death benefit pension (instead of a lump sum).

This pension may continue beyond the 25th birthday, as there is no time limit on how long this pension (paid under financial dependency) can be paid. In contrast, this 25th birthday time limit is generally imposed on children (under 18) who receive a death benefit pension from their deceased parent.

Background — superannuation and tax law

The above discussion raises the important question: What is financial dependency?

In short, while there is no formal definition of financial dependency, we can look at both superannuation and tax precedents to give us an understanding of when such payments can be made and how they are taxed.

Super law

For the purposes of superannuation, the definition of 'dependant' is set out in Section 10 of the SIS Act:

'Dependant', in relation to a person, includes the spouse of the person, any child of the person and any person with whom the person has an interdependency relationship.

Note that the use of the word 'includes' in the SIS definition has allowed the courts to extend 'dependency' to those who were financially dependent on the member.

Case law

Case law tells us that financial dependency is a question of fact, and does not require that the deceased had an obligation to support the other person.

Additionally, the fact that the dependant has income or separate wealth of their own

will not necessarily mean they are not financially dependent on another. Whether somebody is financially dependent on another is a question of whether there was actual 'maintenance and support'.

In Malek's case[1], a mother was found to be financially dependent on her deceased son and was able to assert rights to his superannuation benefits. Dependency was found to be determined by whether the dependant relied on the deceased to maintain them to a particular standard of living.

Superannuation case law allows a financial dependant to be partially or wholly dependent. Partial dependency implies that the financial contribution does not have to be relied upon for basic living requirements. It is sufficient if the contribution is supplementary to a person's other income.

In Faull's case[2], a mother was held to be partially dependent on her son on the basis that he paid her board of $30 per week. The mother worked full-time earning over $700 per week, so did not rely on the payment of board. By contrast, the deceased's estranged father (who appealed against the trustee's decision) was in poor health, unemployed and on a disability support pension.

The decision was based on a number of factors. The deceased's father was unable to present any evidence of financial dependency, therefore a death benefit payment could only have been made to him via a legal personal representative (and in this case, one did not exist). The deceased member's intention was also considered. It was clear that he wished his mother to benefit, as she had been nominated as his preferred beneficiary less than two months prior to death. The deceased had not communicated with his father for a number of years.

ATO's view

The definition of financial dependency is more restrictive under tax rules. Here, the dictionary meaning, which refers to substantial financial support, has traditionally been applied.

The Commissioner has not expressed a detailed view on financial dependency in a public ruling. However, a number of private binding rulings (PBRs) show the use of the following tests:

> *"…financial dependence occurs where a person is wholly or substantially maintained financially by another person".*

However, some of these rulings appear to go further, stating the test is also as follows:

> *"If the financial support received by a person were withdrawn, would the person be able to survive on a day-to-day basis? If the financial support provided merely supplements the person's income and represents 'quality of life' payments, then it would not be considered a substantial support. What needs to be determined is whether or not the person would be able to meet the person's daily needs and basic necessities without the additional financial support."*

These tests appear to imply that only the necessities of life are relevant.

It was explicitly stated in Public Binding Ruling (PBR) number 18688 that:

Continued on p30

> *"…issues of 'quality of life' in terms of 'enjoying a reasonable standard of living' cannot be taken into account and are irrelevant for the purpose of determining whether the trustee can be treated as a dependant".*

Another PBR (64085) has shown that where the deceased had paid for social outings, medication, pocket money, chocolate, music CDs and costs for football for a grandchild, will not be enough to establish financial dependency.

A further example is PBR (40376), where amounts spent "tended to be on luxury items such as entertainment, rather than the child's day-to-day living expenses". In this example, financial dependence was not made out.

Regularity and continuity is important

From all the rulings discussed, the ATO has required one to show reliance on regular and continuous contributions. Therefore, a dependant must be able to show that they have received financial or substantial help from the deceased to meet their basic needs regularly and over a period.

Lack of evidence

Retaining evidence of a deceased's expenditure on their dependant will be critical to proving financial dependency. Additionally, the rulings indicate that where expenditure is asserted but not itemised, it will be difficult to convince the Commissioner that payments went toward the daily essential needs of the dependant.

Conclusions

If it can be established that a person was financially dependent on the deceased, strategic opportunities arise. These opportunities can also lead to tax efficiency. However, a proper understanding of the test for financial dependency will allow advisers to help their clients fully benefit from these laws.

In comparing the above definitions, it can be seen that a beneficiary who can be paid a benefit under the superannuation definition of dependant, may not be entitled to receive tax concessions unless also considered a dependant according to the tax interpretation.

A conservative approach would be to seek a PBR, but it is likely the Commissioner would apply the above strict tests. It should be noted that the Commissioner of Taxation's view does not necessarily reflect the law, thus an objection is possible to appeal to the Administrative Appeals Tribunal or Federal Court of Australia.

Obviously, the review and appeal process could be a costly and time-consuming path. In any case, where a client's particular facts do not produce a clear result, it is highly recommended that expert advice should be sought.

Perhaps to avoid any potential scrutiny, disputes and hefty tax bills, it is recommended that planners and their clients consider the following checklist (see below) when planning on relying on paying super death benefits on the grounds of financial dependency.

William Truong is Technical Services Manager, IOOF.

Footnotes

1. *Malek v. Federal Commissioner of Taxation 42 ATR 1203, 99 ATC 2294.*
2. *Faull v Superannuation Complaints Tribunal [1999] NSWSC 1137 (26 November 1999).*

Tip

Planners with clients wishing to nominate someone other than a spouse or a child, should also consider nominating their estate as the beneficiary of their death benefit proceeds, and make a gift to their preferred beneficiaries via the Will.

Where the superannuation death benefit payment is made to the trustee of a deceased estate, the benefit is taxed in the same way it would have been taxed if the payment was made directly to the end beneficiary.

The Commissioner will determine whether any gift or a death benefit via a Will is to a dependant.

Checklist to determine financial dependency

- Did the person rely or depend on the deceased for contributions of financial support to maintain the person's normal standard of living?
- Were these contributions significant, regular and continuous?
- Were the contributions of a type that courts and tribunals have recognised? Types that have been recognised include:
  - direct financial contributions (eg, paying for living expenses, food, clothing and shelter);
  - assisting in mortgage repayments;
  - taking on a liability (eg, where the deceased took out a loan on behalf of the alleged dependant); and
  - maintaining the alleged dependant's assets (eg, repairs and alterations made to the alleged dependant's home).
- Does sufficient evidence exist to support the above?

QUESTIONS

1. With regards to the financial dependency article, which of the following would less likely be an indicator of financial dependency? The beneficiary has been receiving:

a. direct financial contributions (eg, paying for living expenses, food, clothing and shelter).

b. assistance in mortgage repayments.

c. pocket money for grandkids.

d. assistance with rental payments.

2. Which of the following types of contributions may not indicate financial dependency?

a. Direct financial contributions (eg, paying for living expenses, food, clothing and shelter).

b. Assisting in mortgage repayments.

c. Taking on a liability (eg, where the deceased took out a loan on behalf of the alleged dependant).

d. Weekly care days and social outings expense for a grandchild.

3. True or false? Super death benefits received by a grandchild who was dependent on their deceased grandparent may be paid a super death pension which is not limited by age restriction.

a. True.

b. False.

4. True or false? Under case law, it requires that the deceased had an obligation to support the other person.

a. True.

b. False.

MONICA RULE
SMSF SPECIALIST

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Formula for calculating the anti-detriment amount**
- **Tax payable on anti-detriment payments**
- **Anti-detriment payment v re-contribution strategy**

Anti-detriment payment

How would you like the amount of tax you've paid in your Self-Managed Superannuation Fund (SMSF) to be refunded to your dependants upon your death?

An anti-detriment payment can make this possible and it is an area of the superannuation law that few people are aware of. Not much has been written on the subject mainly because it is too complex to explain. I believe it is something that all SMSF trustees should be made aware of, and therefore, I will attempt to explain it.

In order to understand the law, I need to first explain why it was introduced. Prior to 30 June 1988, a superannuation fund did not pay tax on deductible contributions. Benefits payable from a superannuation fund were (in respect of service after 30 June 1983) taxed at 30 per cent (ignoring the Medicare levy). A lump sum death benefit, paid to a dependant, was paid tax-free.

Then in July 1988, the Government decided to bring forward the taxing of superannuation funds by introducing a 15 per cent contribution tax and reducing the 30 per cent tax payable at the benefit phase to 15 per cent tax by way of compensation. This meant that a lump sum death benefit payable to a dependant was no longer entirely tax-free because a 15 per cent contribution tax had been applied to the money.

Therefore, the new tax arrangement only benefited members who survived long enough to enjoy the lower tax rate at the benefit phase and did not compensate the beneficiaries of members who died during the accumulation phase. The deceased member's beneficiaries were detrimentally affected – hence the 'anti-detriment payment'.

To compensate the deceased member's beneficiaries, the anti-detriment law was introduced. This restored the deceased member's lump sum death benefit to what it would have been if the 15 per cent contribution tax had not been paid.

The law works by allowing dependants of the deceased member to receive an increased death benefit via an additional lump sum payment (i.e. anti-detriment amount) from their SMSF and provides a refund of the contribution tax paid, through a tax deduction to the SMSF.

The tax deduction available to the SMSF is the anti-detriment payment amount grossed up to reflect the 15 per cent contribution tax. This is so that the reduction in tax payable by the SMSF is equivalent to the anti-detriment amount. The 15 per cent contribution tax refund is not paid as a cash refund by the ATO, instead it provides a tax deduction claimable by the SMSF. For example, if an SMSF makes an anti-detriment payment of $60,000, it will be entitled to a tax deduction of $400,000 (i.e. $60,000 divided by 15 per cent).

The SMSF is able to claim a tax deduction, which reduces the SMSF's assessable income and potentially provides a tax saving equivalent to the anti-detriment amount. If the tax deduction cannot be fully used in the year that the anti-detriment payment is made, it can be carried forward to offset a tax liability in future years. This means any excess deduction not used can be carried forward as losses for future use.

Example: Tony is a member of his SMSF. His SMSF paid $25,000 contribution tax on Tony's superannuation account during his SMSF membership before his death. Therefore, Tony's wife Pam would in theory be short by $25,000 plus the earnings that would have accrued over Tony's membership period in the SMSF.

To reverse the effect of the contribution tax paid, an anti-detriment amount is calculated. If we assume that total earnings over the membership years amounts to $7,000, then the anti-detriment amount payable would be $32,000 (i.e. $25,000 contribution tax paid

+ $7,000 potential earnings).

If the SMSF paid out a lump sum death benefit to Pam that includes an additional $32,000 anti-detriment amount, then the SMSF can claim a tax deduction of $213,333 (i.e. $32,000 divided by 15 per cent contribution tax).

The tax deduction can be used to reduce the tax payable by the SMSF in the current financial year or if a tax loss is generated in the SMSF, then the loss can be carried forward to future financial years.

There is no legal obligation on an SMSF trustee to make an anti-detriment payment, as it can be paid provided the trust deed of the SMSF allows for it. However, most SMSFs are unable to make such payments, as the funding of an anti-detriment payment cannot be made from the deceased member's superannuation account (Reg. 5.08 SISR – member's minimum benefit must be maintained) or other members' superannuation accounts (not even temporarily) and is normally made from reserves maintained by an SMSF. If an SMSF has no reserves, then it is unlikely to be able to make the payment. SMSFs must have sufficient cash or capital to pay the anti-detriment amount to the beneficiary. The trustees need liquidity in the SMSF to make the additional payment.

There are two ways to fund an anti-detriment payment:

1. **Tax Savings in the year of payment:** As the increased death benefit payment is an immediate tax deduction to the SMSF, an anti-detriment payment can be sourced from the tax liability of the SMSF in the year of payment, provided there is sufficient cash available to make the payment.
2. **Reserves:** An anti-detriment payment can be created over time from the SMSF's investment returns. If a reserve is used, the SMSF must have a documented reserving strategy. The anti-detriment payment cannot be made directly from a reserve to a beneficiary. The amount must be allocated to the member's account. Allocations from a reserve in excess of 5 per cent of the member's interest are counted against the member's concessional contribution cap. Also, where an SMSF is in pension phase, the earnings on the reserve do not receive the pension tax exemption and are taxed at 15 per cent.

An anti-detriment payment can only be paid to a spouse, former spouse, or child of the deceased member or to the estate, provided the ultimate beneficiaries are these people.

An anti-detriment payment can only be paid with a lump sum death benefit and not with a pension. In addition, it is only payable by an SMSF that has always been a regulated, complying superannuation fund.

Most SMSFs' accounting records do not track the contribution tax paid on individual members' superannuation accounts (i.e. using an audit method) and therefore, details are often not available to calculate the anti-detriment payment. The superannuation law also does not provide a method to calculate the anti-detriment amount. However, there are several accepted methods of calculating the anti-detriment amount. The most common method used is the formula method (described in ATO ID 2010/5) based on the taxable component and service period of the deceased member.

The formula is [(**0.15 x P) / (R – 0.15 x P) x C**] where:

R is the total number of days in the eligible service period post 30 June 1983, up to the date of payment.

P is the number of days in component R that occur after 30 June 1988, up to the date of payment.

C is the taxable component of the lump sum death benefit, excluding any insurance proceeds for which tax deductions on premiums have been claimed.

Example: Ian passes away on 15 June 2012 at the age of 60. His superannuation account balance is $1,750,000 consisting of a $1,000,000 taxable component + $250,000 tax-free component + $500,000 in insurance proceeds. Ian's SMSF membership commenced on 1 July 1985. Ian's lump sum death benefit is paid to his wife, Bev, on 1 July 2012.

Using the formula method, the anti-detriment payment is calculated as follows:

R = 1 July 1985 (i.e. number of days post 30/6/1983) to 1 July 2012 = 9,863 days

P = 1 July 1988 (i.e. number of days in R post 30/6/1988) to 1 July 2012 = 8,767 days

C = $1,000,000 (i.e. taxable component of the lump sum death benefit)

(0.15 x 8,767 days) / (9,863 – 0.15 x 8,767) x $1,000,000 = $153,843.90 anti-detriment amount

Bev will receive a lump sum death benefit of $1,903,843 ($1,750,000 + $153,843 anti-detriment amount) tax-free and Ian's SMSF will be entitled to claim a tax deduction of $1,025,626 ($153,843.90 divided by 15 per cent).

Continued on p34

Is there any tax payable on anti-detriment payments?

An anti-detriment payment forms part of the taxable component of a lump sum death benefit. Therefore, if the lump sum death benefit is paid to a dependant, such as a spouse, former spouse or minor child, the entire lump sum death benefit, including the anti-detriment payment, will be tax-free, as the beneficiaries are dependants for tax purposes.

If, however, an anti-detriment payment is made to an adult child who is classified as a non-dependant, then it will be taxed at 15 per cent plus the Medicare Levy, in line with the tax normally payable by a non-dependant beneficiary on the taxable component of a lump sum death benefit.

Please remember that an anti-detriment amount must be first paid from an SMSF before a tax deduction can be claimed.

Caution: It is the ATO's view that any amount credited from a reserve, for the purposes of an anti-detriment augmentation, counts as concessional contributions of the deceased member unless the amount is less than 5 per cent of the member's account balance before the reserve amount is allocated. This is because any payments from a reserve that is:

- not paid on a pro rata basis (i.e. fair and reasonable) to all members of an SMSF; or
- increases the deceased member account by 5 per cent or more

will be grossed up and counted against the deceased member's concessional contributions cap. This means that $85 from a reserve will be regarded as $100 for the purposes of the cap. Therefore, if the amount paid is to be counted against the caps, then the tax outcome will depend on the deceased's circumstances.

However, since 1 July 2013, where excess concessional contributions are able to be included in a member's assessable income and taxed at the member's marginal tax rate plus interest, the benefits of creating a large tax deduction may outweigh the cost of any excess contributions tax payable – especially if the deceased member has little or no assessable income (i.e. aged 60 or over and drawing an account based pension).

Must an anti-detriment payment be paid in full in one instalment?

The compulsory cashing of benefits superannuation rule (Reg. 6.21(2) & 6.25(2)) does allow an SMSF to pay up to two lump sums – an interim payment of a portion of the benefit when the member's entitlement arises and the remainder of the benefit when the amount is finally ascertained.

However, in order to satisfy the anti-detriment rule, if more than one instalment of a death benefit is paid to a dependant, then each lump sum paid must include the anti-detriment/tax saving amount. Then, as long as the amount added to each death benefit equates to the anti-detriment amount calculated for each payment, then the SMSF would be able to claim a tax deduction for each payment.

Therefore, if two instalments are made, either or both payments may be increased by the anti-detriment amount.

If the amount of the increased death benefit is too high to fund, then there is a process where the trustee can reduce the amount to a more manageable level. Spouses and minor children may receive a pension, as well as a lump sum death benefit, so that the amount of the lump sum may be reduced by paying part of the death benefit as a pension.

This strategy is not available to adult independent children who are not entitled to a death benefit pension.

Common result of an anti-detriment amount using the formula method

It is commonly known that if you use the formula method to calculate an anti-detriment amount, the following will result:

- If the deceased member's eligible service period commenced prior to 1 July 1988, an anti-detriment amount between 13.63 per cent and 17.65 per cent of their taxable component (excluding insurance) will result, depending on the deceased's eligible start date and the date of payment.
- If the deceased member's eligible service period commenced after 1 July 1988, an anti-detriment amount of 17.65 per cent of their taxable component (excluding insurance) will result, irrespective of the actual eligible start date.

Situations not suitable for an anti-detriment payment

There are some instances when it will not be suitable to make an anti-detriment payment. They are:

- The SMSF is not expected to generate sufficient taxable income in future years to use up the anti-detriment created tax deduction (e.g. all members are in pension

phase). This is because the exempt current pension income is first deducted from any carried forward income losses before assessable income can be offset. This may be managed if those members in the pension phase are rolled into another SMSF and only accumulation phase members remain in the SMSF. However, assets may need to be sold to facilitate the rollover.

- The SMSF has only one member, there are no reserves and no new members can be admitted to the SMSF.
- The member has implemented a re-contribution strategy.

Anti-detriment payment v Re-contribution strategy

The anti-detriment and re-contribution strategies may work against each other.

A re-contribution strategy is when a member of an SMSF withdraws a lump sum superannuation benefit (consisting of tax-free and taxable components), pays the relevant tax on the benefit, and re-contributes the money (i.e. non-concessional contributions – tax-free) back into the SMSF. By doing this, it increases the tax-free component and reduces the taxable component of a member's superannuation interest.

The advantages of the re-contribution strategy is that if a member is under the age of 60, it increases the tax-free portion of their pension, or if a member dies, then their non-dependent beneficiaries pay no tax on the tax-free portion of the death benefit.

The re-contribution strategy will normally reduce or diminish the anti-detriment amount that can be paid. This is because the formula method in calculating an anti-detriment payment uses the taxable component of the lump sum death benefit paid to the deceased's beneficiary. Therefore, the smaller the taxable component of the lump sum death benefit, the smaller the anti-detriment amount. Please note, however, that if you use accounting records (i.e. audit method), then calculation of an anti-detriment payment is not affected by the level of taxable component.

The loss of the ability to pay an anti-detriment amount may be justified by the tax savings received by non-dependant beneficiaries to a deceased member's death benefit that results from the re-contribution strategy. It really depends on individual circumstances.

Monica Rule is an SMSF specialist and author of 'The Self Managed Super Handbook – Superannuation Law for SMSFs in plain English'. www.monicarule.com.au

QUESTIONS

1. An anti-detriment payment can be paid to:

a. a spouse, former spouse, and/or a child.

b. a spouse only.

c. a former spouse only.

d. an adult child only.

2. An anti-detriment payment is funded from:

a. the deceased member's superannuation account.

b. another member's superannuation account.

c. a reserve.

d. liquidating assets.

3. An anti-detriment payment is calculated using:

a. the legislative formula.

b. a formula method or an audit method.

c. the deceased member's superannuation account balance.

d. the deceased member's age.

4. An anti-detriment payment can be paid as:

a. an income stream benefit.

b. a lump sum death benefit.

c. a transition to retirement pension.

d. a reversionary pension.

Long-standing event serves up an ace

The 2015 Sydney Chapter Tennis Afternoon was held on the 20th March, at the Northern Suburbs Tennis Centre in Naremburn. A strong field of players were on hand to compete for the honour of being crowned 'Champions'. The tennis afternoon caters for those who are regular players, and others who just like to try their hand at playing tennis once or twice a year.

"The Tennis Afternoon has been one of the longest running events for the Sydney Chapter, starting in the early '90s," said Peter Fysh, who was a member of the organising committee. "Some of those participating in the latest event have attended the majority of the tennis days, and still are competing with the same enthusiasm."

With planners and fund managers competing with each other, the event was successful, with attendees playing in good spirit. The winners on the day were:

A Grade - Mort Cohen and Simon Harris; and

B Grade - Richard Sutherland and Dieter Kammerl.

Without the support of the current FPA Sydney Chapter, the FPA events team, the sponsors and players, this event could not continue with its long tradition.

Peter Fysh, Dieter Kammerl (B Grade Champ), Allison Macfarlane, Richard Sutherland (B Grade Champ).

Steve James, Jeremy Martin, Lisa Faddy, Kevin Wyld.

Scott Bradley and Michael Blake.

Peter Fysh, Mort Cohen (A Grade Champ), Allison Macfarlane, Simon Harris (A Grade Champ).

The changing face of retirement

Sydney Chapter chair Vicky Ampoulos, Nicolette Rubinsztein and Rob Martello.

Client retirement strategies were clearly the focus at the Sydney Chapter's March 25th breakfast, with Colonial First State (CFS) general manager, Advocacy and Retirement, Nicolette Rubinsztein, providing attendees with some insights into how to provide clients with greater income stability in retirement.

According to Rubinsztein, with the life expectancy of Australians increasing, it's necessary for planners to provide retirement planning advice and solutions that deliver reliable long-term outcomes and certainty of income across each phase of retirement.

In an entertaining session, Rubinsztein shared some of the results of Ernst & Young research commissioned by CFS which showed some effective strategies planners can use to give their clients greater income stability and peace-of-mind in retirement.

Par excellence

The Melbourne and Western Australia Chapters recently held their annual golf days – at the prestigious courses of The Commonwealth Golf Club in Melbourne and the The Western Australia Golf Club in Perth.

The weather for both events was ideal and the golfers were all in fine form. Congratulations to all winners and participants on the day, and thank you to the respective event partners as follows:

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Vanguard
The West

Take the Kilimanjaro Challenge

Have you ever fancied climbing the world's highest freestanding mountain in time to watch the sunrise over the vast African savannah?

In a new initiative, Future2 has teamed up with Inspired Adventures to launch the Kilimanjaro Challenge – a seven day hike to ascend Africa's highest peak. The challenge will take place from 17-28 February, 2016.

The Future2 trustees introduced the Kilimanjaro Challenge to complement the successful Wheel Classic challenge with another event that would appeal to a different demographic.

According to Future2 Foundation general manager Susan Grice, the decision for Future2 to partner with Inspired Adventures was due to its well-credentialed record in fundraising and travel adventures. "Working with Inspired Adventures, we can be confident that the Challenge is in experienced hands and any risks have been carefully managed, making for great outcomes for the participants, as well as Future2," Grice said.

Highlights of the Kilimanjaro Challenge include:

- Enjoying the unique cultural experience of Africa;
- Climbing to the summit of Africa's highest peak;
- Witnessing the sun rise over the east African plains;
- Trekking through grasslands, across alpine meadows and over rocky peaks on the lesser-travelled Rongai route;
- Admiring the desolate beauty of the eastern ice fields in the shadow of the jagged Mawenzi peaks; and
- Making a lasting difference to the lives of disadvantaged young Australians through fundraising.

The duration of the trip is 12 days, with accommodation based on twin-share in three-star hotels and comfortable camping facilities.

The trek will be limited to a maximum of 20 individuals, plus an Inspired Adventures team leader and doctor travelling from Australia. Grice added that if there were more people interested in registering, there is the possibility of putting on a second group, which will travel at a later time next year.

Each participant will be required to raise at least $4,000 for the Challenge, with Future2 setting itself a total fundraising target of $80,000 based on the full 20 participants in the group.

Grice added that although the trek is quite challenging, ranked 5/5 by Inspired Adventures, no trekking experience is required prior to registration. However, all participants need to be relatively fit and willing to train. Inspired Adventures will provide advice and support with the training.

The travel cost is $7,850 (including flights) or $4,999 (excluding flights). A non-refundable fee of $770 is payable on registration. Following completion of the Kilimanjaro Challenge, participants can also choose to extend their travels with an optional four-day safari at an additional cost.

For more information or to register your interest, go to www.inspiredadventures.com.au/future2/kilimanjaro2016/

Future2 is the charitable Foundation of the FPA. Since it was established in 2007, the foundation has granted $390,000 to 31 community not-for-profits and charities across Australia.

Upcoming Chapter events

5 May

Western Australia: Women in Financial Planning Lunch

6 May

Bendigo: Member Lunch

11 May

Mid North Coast: Annual Charity Golf Day

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

NSW

Naomi Fraser CFP*
Macquarie Bank

James Parame CFP*
Bedrock Financial Services

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Granny flats and your client's pension

Many older Australians make adjustments to their living arrangements as they go through retirement.

Granny flats are a common arrangement usually involving a separate, self-contained building or living area attached to a home or property that is not owned by your client.

We recognise that granny flats are usually family arrangements, providing company and nearby help and support for older people. However, this is not required for a living arrangement to be considered a granny flat for social security purposes.

When calculating an Age Pension, Centrelink takes into consideration a number of different factors. Firstly, we refer to a granny flat arrangement in the financial sense as a granny flat 'interest'.

A typical granny flat arrangement is a dual occupancy in a detached dwelling on a block of land where a primary residence already exists. But a granny flat interest can be created on any kind of dwelling and not just those typically referred to as granny flats.

It is important to note your client cannot have a granny flat interest in a property in which they have legal ownership.

Granny flat interests are created when a person:

- transfers all legal title to their home to another party and retains a right to occupancy for life; or
- pays for the construction and fit out of a home on another person's property and retains a right to occupancy for life; or
- provides some or all of the purchase price of a property registered in another person's name and retains a right to occupancy for life.

Although Centrelink may accept that your client has a granny flat interest, even if it is not in writing, we recommend that your client has a legal document drawn up by a solicitor to give evidence of the arrangement. This should help to prevent any problems in the future if their personal circumstances change.

Centrelink does not use a market value to assess the worth of a granny flat interest. Instead, Centrelink needs to know what your client transferred to the property owner in exchange for a granny flat right or interest.

If your client gifts or transfers additional assets, they will be subject to the reasonableness test to see if they deprived themselves of their assets. This test has set amounts that are considered 'reasonable' for acquiring a granny flat interest based on their age.

Anything over these thresholds is considered a deprived asset and may affect how much pension your client receives.

Let's take a look at a fictional customer named Mary, who wants to live closer to her grandchildren.

Mary sells her house for $220,000 after expenses and advises Centrelink that she will pay to build a granny flat on her son's property.

The proceeds are not assessed as an asset for 12 months or until she knows the final build cost. Mary's build cost is $100,000 and her son confirms that Mary has the right to reside there for life.

Mary has not deprived herself of an asset in creating the granny flat interest. The remaining $120,000 may be assessed as an asset depending on what Mary does with it.

As Mary paid less than $146,500 (known as the Extra Allowable Amount), the $100,000 she paid is assessed as an asset but she is deemed to be a non-homeowner, which means she can have more assets before her rate is affected. Mary may also be eligible for Rent Assistance.

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

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

For more information on granny flats, detail on the 'reasonableness test' and how granny flat interests can affect your client's age pension, visit humanservices.gov.au/assets

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