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# Financial Planning

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## The future you want

Mark Rantall and why the profession needs to shape its own future

**THIS ISSUE: Business productivity / Congress 2015 / Annuities
Disclaimer and tax (financial) advice / Small business CGT**

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# Supporting members through change

## Adapting to change can be challenging. Part of our role at the FPA is to help members adapt, evolve and embrace new opportunities.

Last year, we announced a bold vision: Through our members, we stand with Australians for a better financial future. We can only do this if we provide you with the right tools and guidance.

### Life Insurance Advice Guide

At the FPA, we are deeply committed to supporting you through a changing landscape, so that you are well equipped to continue to deliver the best possible financial advice. As you know, the primary objective of professional financial advice should be to put the interests of the client first. This is the first principle in the FPA Code of Professional Practice, and it sits at the heart of every policy position we take at the FPA.

Recently we launched the FPA Life Insurance Advice Guide, a practical resource designed to help you deliver and maintain the highest levels of client service in the area of life-risk advice.

We designed the guide with input from FPA members and are confident it will provide you with a valuable resource that brings to life our code and helps meet your best interest duty.

I hope you have had some time to read it – if not, you'll find the 10 core principles of the guide within this edition. I urge you to download the guide in the Member Centre on the FPA website and use it actively. We'll also be delving into the guide in a workshop at the FPA Professionals Congress this month, for those who want to learn more about how the guide might be applied.

There is no doubt that life insurance is of critical importance to the financial future of our nation. The quality of advice in this area is therefore paramount to ensuring Australians are appropriately and adequately protected. As always, we welcome your feedback on the guide. You can send it through to policy@fpa.asn.au.

### Adapting to change

On the subject of change, our upcoming FPA Professionals Congress is very much about shaping the best possible future – for you, your business and your clients.

In this edition, you'll also find more information about our TED-style keynote line-up, Women in Financial Planning breakfast with Jennifer Byrne and our recently announced Gala Dinner, featuring *Mao's Last Dancer*, Li Cunxin. I believe the speakers this year embody the traits we all need to display to overcome challenge and emerge as winners.

Our Congress this year is no stock standard event. It will leave you inspired, invigorated and excited about tomorrow. There is still some time to book, if you get in quick. Visit www.fpacongress.com.au to find out more.

Enjoy this edition.

**Mark Rantall CFP®**
**Chief Executive Officer**

**At the FPA, we are deeply committed to supporting you through a changing landscape, so that you are well equipped to continue to deliver the best possible financial advice.**

# 10 principles of life-risk advice

The FPA has released a comprehensive Life Insurance Advice Guide to support FPA members in delivering life-risk advice to clients. The guide comes on the back of the FPA's Life Insurance Blueprint, which it released in May 2015.

With input from FPA members, the guide has been developed to provide practical guidance on how to apply the FPA Code of Professional Practice to life-risk advice.

According to FPA chief executive officer, Mark Rantall, the guide incorporates elements of ASIC's 'Life Insurance Advice Checklist', including best practice principles that should be applied by all FPA members.

"The quality of advice is the primary objective of all FPA members when dealing with the financial futures of Australians. For this reason, we have produced this guide to help members identify and address common omissions and errors in the provision of advice relating to life insurance," Rantall said.

The FPA's Life Insurance Advice Guide outlines 10 core principles, divided into eight sections.

**The 10 principles are:**

1. Understand the client's family relationships and other entities controlled.
2. Educate the client on risks they are exposed to (after understanding their circumstances) and obtain their informed objectives.
3. Understand the client's conditions of health, occupation and risk category. Where advice includes a business, conduct business health investigations.
4. Where the complexity of client and/or related entity situations exceeds the competency of the servicing financial planner or his/her staff, then the client should be referred to a more suitably competent person.
5. Analyse the client's cash flow, including the capacity to fund premiums. Identify the most efficient solutions for funding method(s), tax efficiency and structuring/estate planning, with regard to the client's competing financial planning goals and agreed priorities.
6. Identify suitable ownership structure(s) for the policies to ensure the insurance purpose meets the client's intentions after considering asset protection, tax liabilities for payments, beneficial recipients and lifestyle.
7. Research, identify and recommend suitable product(s).
8. Be transparent about any conflicts of interests. Avoid conflicts which are not able to be managed in a manner that places the interests of the client first.
9. Identify and recommend suitable ongoing services associated with any insurance recommendation.
10. Diligently undertake and maintain record-keeping activities.

In addition to the 10 principles, the guide also provides step-by-step guidance for planners on meeting their best interest duty and how to apply the FPA Code of Professional Practice.

The Life Insurance Advice Guide can be accessed in the Member Centre of the FPA website at www.fpa.asn.au

In addition, there will be a workshop session at this year's FPA Professionals Congress to explore the guide in detail with members.

For more information about the FPA Professionals Congress (Brisbane 18-20 November), go to www.fpacongress.com.au

# An evening with Mao's Last Dancer

Li Cunxin (pronounced 'Lee Schwin Sing'), better known as Mao's Last Dancer, will be the guest speaker at this year's Future2 Gala Dinner at the FPA Professionals Congress, as well as appearing as part of the Shaping Futures Ted Talk-style session on Thursday 19 November.

In his bestselling autobiography, *Mao's Last Dancer*, Li recounts his determination, perseverance, courage and hard work, to rise from his poverty-stricken upbringing to become one of the best dancers China has produced.

Li is currently the Artistic Director of the Queensland Ballet. He recently returned from New York, where he was the first Australian to be recognised by the Asia Society's prestigious Asia Game Changers awards, which identify and honour leaders making a positive contribution to the future of Asia. He received his award for 'his art, his courage and his cultural diplomacy'.

Li says he is excited about the theme of the year's FPA Professionals Congress – Shaping Futures.

"The vision we have, the actions we take, the passion, the dedication and the hard work we put in on a daily basis, all make an enormous difference on shaping future outcomes," he says.

Not only will Li share his personal story and journey as a dancer growing up and training in China, he will also talk about his dramatic defection to the US and the subsequent home he has made in Australia. Along the way, he will share his observations and lessons he has learnt over the years.

"I joined the Queensland Ballet with a daring vision and bold ambition: to lead Queensland Ballet on a path to become a world-standard ballet company and an Asia-Pacific powerhouse in dance, and to make a positive difference in the lives of artists and our community. Everything we do at Queensland Ballet is towards that goal," Li says.

At the Future2 Gala Dinner, guests will also be entertained by a performance from the Queensland Ballet.

Li Cunxin

This will be an event not to be missed. Be inspired by the story of Li Cunxin, while enjoying a performance by the Queensland Ballet. To purchase your tickets, go to www.fpacongress.com.au

# Practitioners speak at masterclass event

Three FPA practitioner members recently spoke at a *Money* magazine masterclass event on superannuation, which attracted consumers from around the Sydney area.

Speaking at this event, which was hosted by *Money* magazine editor, Effie Zahos, were: Simon Clifford CFP®, a partner at Adviser *fp*; Cathy Lowder CFP® from Fryer Financial Services; and Sam Henderson, the chief executive officer and senior financial adviser at Henderson Maxwell.

Simon spoke about navigating the superannuation landscape and how to make the rules work best for you, while Cathy spoke about the strategies you need to know in order to boost your superannuation.

Sam's presentation was on SMSFs. He covered off on whether an SMSF is right for you, how to set one up and importantly, how to manage an SMSF well.

The *Money* magazine superannuation masterclass was jointly hosted by the FPA, as part of its new partnership with *Money* magazine.

The FPA/*Money* magazine partnership covers a range of activities, including:

- A 'money makeover' series, featuring real-life client case studies;
- Online and print advertising in selected media titles, which will help drive traffic to the FPA's 'Find a Planner' directory; and
- Ongoing editorial support from *Money* magazine editor, Effie Zahos.

The FPA's new partnership with *Money* magazine is part of a wider consumer awareness initiative which includes: ongoing PR initiatives, paid Google search and Facebook advertising, consumer brochure, annual consumer advertising, and financial literacy projects.

# Silver anniversary of CFP® Certification

This year marks 25 years of the FPA delivering CFP® Certification in Australia.

At the recent Financial Planning Standards Board (FPSB) meeting, FPA chief executive officer, Mark Rantall was presented with an award, recognising the FPA's contribution to advancing the financial planning profession globally.

Australia was the first country outside of the US to adopt the globally recognised CFP mark as the gold standard of the financial planning profession.

Demand for CFP Certification, both in Australia and globally, continues to rise, as more planners seek to achieve the profession's highest qualification. There are currently 5,500 CFP practitioners in Australia and almost 160,000 professionals worldwide.

Enrolments for the CFP Certification Program Summer School close on 6 November 2015.

The FPSB is the owner of the CFP®, CERTIFIED FINANCIAL PLANNER® and CFP® logo marks and designations outside of the United States. The FPA is the licensed provider of these marks in Australia.

# Disclaimer and tax (financial) advice

## Are you using a disclaimer to provide a tax (financial) advice service?


**Time is running out to register with the Tax Practitioners Board (TPB) if you are using a disclaimer to provide tax (financial) advice services.**

Until 31 December 2015, AFS licensees and their authorised representatives can notify to register as a tax (financial) adviser or use the disclaimer to provide tax (financial) advice services for a fee or other reward. From 1 January 2016, you must be registered with the TPB if you provide tax (financial) advice services for a fee or other reward.

### Notifying to register until 31 December 2015

Until the 31 December 2015, AFS licensees and their authorised representatives who provide tax (financial) advice services can notify the TPB to become a registered tax (financial) adviser. The benefits of notifying to register as a tax (financial) adviser include:

- there are no application fees;
- individuals do not have to meet education and experience requirements yet;
- partnerships and companies have more time to meet the sufficient number requirement; and
- AFS licensee or authorised representatives will have until 31 July 2017 to meet the standard registration requirements.

"I encourage all Australian financial services (AFS) licensees or their authorised representatives who are questioning if they should register under the notification period, to visit www.tpb.gov.au/financialadvisers and watch the TPB's video – *'Should I notify to register as a tax (financial) adviser?'* This will help you work out if you should notify," said TPB Chairman, Ian Taylor.

### Using a disclaimer until 31 December 2015

An AFS licensee or their authorised representatives who provide tax (financial) advice services for a fee or other reward while unregistered, can rely on a disclaimer until 31 December 2015. However, from 1 January 2016, anyone providing tax (financial) advice services for a fee or other reward has to be registered with the TPB.

### Transitional and standard registration options from 1 January 2016

From 1 January 2016, all AFS licensees and their representatives will be able to apply to register with the TPB if they meet the transitional or standard eligibility requirements. This applies to all representatives, not just authorised representatives, and includes:

- employees or directors of the AFS licensee;
- employees or directors of a related body corporate of the AFS licensee; and
- other individuals acting on behalf of the AFS licensee.

**Transitional registration** will be available from 1 January 2016 to 30 June 2017. You must demonstrate that you have at least 18 months sufficient experience to be able to provide tax (financial) advice services to a competent standard to register under this option.

**Standard registration** will be available from 1 January 2016 onwards. Anyone meeting the standard eligibility requirements, which includes the qualifications and relevant experience or sufficient number requirements, will be able to apply to register under this option.

For more information on the regulation of tax (financial) advisers, go to www.tpb.gov.au/financialadvisers

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# BE BOLD
# BE CAUTIOUS
# BE READY

the INVESTMENT SPECIALIST series #10

Investing in retirement is becoming increasingly complex. The current low-interest rate environment, and continued volatility in some overseas markets, all add to the challenge of constructing a portfolio.

Having the confidence to know when to be bold, and when to be cautious, is why we have formed an alliance with Sanlam - to introduce three new and innovative managed risk funds. Sanlam's risk management strategies could give your clients the confidence they are seeking in retirement.

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WORKING TOGETHER

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# Getting on with business

## Q: What are your four best productivity tips for your business?

**Randall Stout CFP®**

Director, HPH Solutions

Licensee: HPH Financial Planning

**My four best productivity tips are:**

1. Managing the large email traffic is a huge issue for all of us. We have found the use of Outlook email rules to be a useful tool. This automatically places emails from selected providers into pre-filled folders.

   Ideally, you should only look at your emails 2-3 times per day. Outlook is a powerful time management tool. I personally turn off email notifications, so I can remain focused on the important issues I wish to address.

   This is a fairly normal suggestion, but daily planning is critical. If you let your email traffic dictate your time management, you will be reactive and not proactive.

2. The biggest stress management tool in our practice is tracking our new business and client service activity. We use the XPLAN thread management tool in our business to track new business and review activity.

   New prospects are added into XPLAN. A pre-screening call is made and file noted in XPLAN. If the first appointment is booked, as they meet our ideal client criteria, then we activate the new client thread. This has a detailed list of templated emails, client meetings and tasks to see the client through our client engagement process, which meets the FPA Code of Conduct.

   We can pull up a weekly list of tasks to see which clients are due a terms of engagement, which clients are in the discovery phase and which clients are due for advice. We also generate a list of clients who are due for their reviews each month. The adviser decides which type of review is necessary based on the following categories:

   - email review offer, including FDS;
   - post out review offer, including FDS;
   - book and prepare for face-to-face review, including FDS and re-engagement letter; and
   - send out an up-to-date insurance review.

3. We have two weekly team meetings. We have five partners, three associate advisers and four administration staff. We track our weekly activity to include prospects, new client meetings, review meetings, SOAs and ROAs due for preparation. Profitable activity drives profit. The first meeting is Tuesday, which is a catch-up on the priorities with our three associate advisers. We make sure the admin team has the time to prepare the necessary forms for any meetings in the weeks ahead.

   Friday morning is when we update our activity stats for the week. This keeps issues from falling through the cracks.

   We have a 'T minus two policy', where any terms of engagement, reviews or advice documents must be in draft two days prior to the meeting booked. The partner gives the associate adviser up to 10 business days' notice before an advice document is due. The admin team is given two days' notice before any forms are due, prior to a client meeting.

4. Another team planning initiative we do weekly at HPH (Health, Prosperity and Happiness) Solutions is a group exercise session. We have a park across the road from our office. The whole team is invited at 3:45pm on a Thursday to go to the park and exercise in the fresh air. This helps us live our values of 'health' and 'happiness'. Our personal trainer is hard core.

**Susie Erratt CFP®**

Authorised Representative, All Financial Services

Licensee: Charter Financial Planning

**My best tips for productivity are clear instructions, and try and concentrate on one task at a time.**

We have an office saying: 'One file at a time.' If your mind is too active over too many different cases and issues, your focus can't be as sharp as it might be. When given instructions to other staff, be unambiguous. That way, they are not wasting time trying to read your mind!

Set up task systems and workflows for frequent tasks, so that anyone should easily be able to see where in the process a case is up to.

Delegation is important but it is counter-productive if you don't give the delegated staff member the correct tools, including communication.

**Charles Badenach CFP®**

Principal and Private Client Adviser, Main Street Financial Solutions

Licensee: Fitzpatricks Private Wealth

**The difference between the productive and unproductive is how we spend our time, and my four best productivity tips are:**

1. Learn to say 'no'. We are all inundated with requests to catch up with someone, attend an event or donate our time to a particular cause. Learning to say 'no' can be liberating, as it enables you to take control of your diary and your appointments, freeing up time to focus on the important issues.

2. Embrace technology. The world is changing like never before and the financial planning industry is at the forefront of that change. We have a plethora of technological applications available to us, such as You Tube, Twitter, automated email responders, e-books, Skype, iPad apps, Google hangouts and so forth. Using these effectively enables you to 'work smarter, not harder'.

3. Limit meetings. The best meeting is a short meeting (usually limited to 15-30 minutes), with fewer than four attendees and has a pre-determined goal or objective. Unfortunately, for all of us, meetings occur regularly and the bigger the organisation, the more meetings you are likely to have. Without proper planning, meetings can quickly turn into a costly waste of time and productivity.

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

4. The power of a routine. Productive people have established routines and their behaviours are automated. They are repeated day in, day out, and by taking small steps in the right direction every day, they achieve significant progress. Examples of this include getting up early, dealing with the difficult jobs first, and exercising regularly. As noted American author and speaker, John Maxwell, once famously said: "You will never change your life unless you change something that you do daily. The secret of your success is found in your daily routine."

Productivity doesn't just happen. It is always the result of a commitment to excellence, intelligent planning and focused effort. Good luck.

**Zac Masters AFP®**

Associate Financial Planner, Pekada
Licensee: Charter Financial Planning

My first tip is to limit the checking of emails. I found that the more I was checking my emails, the less productive I was becoming, allowing myself to get easily distracted by emails that could have waited until I had finished the task I was in the middle of. Limiting myself to checking emails during the day allows for less distractions.

Another thing I use is to block out my calendar with tasks that need doing, allowing myself enough time to complete them. The hard part about this is often not getting distracted and sticking to the time limit you have put in the calendar.

We currently do weekly sales meetings, discussing how each of us is tracking in relation to things, such as budget. The more accountable we are, the more likely we will be to strive to hit the targets that we have set for ourselves.

One last thing is to break things up a little. I personally find that sitting down for long periods of time makes me quite tired and unproductive. We've recently brought in standing desks and the simple change from sitting to standing can make a big impact. Even simple things like going for a quick walk can allow you to come back refreshed and awake.

**Daryl La'Brooy CFP®**

Financial Adviser,
Hillross Financial Services

Licensee: Hillross Financial Services

Over the last three years, I have gone back to formal business planning with the help of my licensee's Business Partnership Manager. It's something I did when I first commenced my career as a financial planner but moved away from after a few years.

Having a goal in mind definitely helps prioritise your day-to-day activities. The other useful factor has been the Million Dollar Round Table and looking at how successful advisers, who are members of this organisation, go about improving their personal productivity.

Once my annual goals and that of the business are set, I can then break down this target into what my team and I need to do on a monthly, weekly and daily basis. I have been actively growing my business over the last few years. To do this, I need to acquire more new clients. So, my first goal is to clear my diary as best I can to meet people who'll send me more clients. I've been more successful in doing this over recent years.

I also need good people to support me, and my current team has been a great help. They are fantastic at doing tasks I'm not so good at performing.

Time management has been another key focus. You can be busy all day, but not achieve a lot. My time has to be spent on items that help me grow the business. So, help from team members and doing what's important are key elements of improved business productivity.

Emails are a massive distraction in our line of work. Minimising the time I spend on these has also assisted my productivity but I still need to improve in this area.

So, to summarise, setting goals are important, once set, a plan to achieve these needs to be detailed and then daily activities have to accord with meeting your goals. This is what I have done and my productivity has improved. If, for example, your goal is to put on 24 new clients in the next 12 months, what daily tasks are you undertaking to ensure two new clients come on board every month?

**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.**

# The tyranny of distance

## Working in remote regional towns do have their unique set of challenges, says Broome-based planner, Desiree Male.

**Name: Desiree Male CFP®**

**Educational Qualifications:** BBus, DFS, CPA and Registered Tax Agent, General and Commercial Insurance Consultant – Tier 1 and 2 in Insurance Broking

**Position:** Owner

**Practice:** Male & Co

**Licensee:** AMP Financial Planning

**FPA Professional Practice:** Yes

**Date of CFP designation:** 6 July, 2015

**Years as a financial planner:** 7 years

### 1. As a planner based in Broome WA, what are some of the unique challenges you face? How do they impact you and your clients?

Living and working in a remote town definitely presents unique challenges. Some of these challenges are as simple as the distance from peers and peer groups. It's also about the challenges of being able to attend training, professional development days, and having access to your licensee support personnel that you would otherwise be able to contact easily in a metropolitan area.

It is always a great difficulty in retaining and attracting staff due to the transient nature of a remote town like Broome. Finding qualified and suitable staff is like finding a needle in a haystack. Then when you do finally get the right person, they tend to move on in a relatively short period.

Clients are the same. They are posted or move to the town for a number of years and then they leave. It does make it difficult when you build the relationship and then the client moves. The distance can then make it difficult to service these clients at times.

### 2. How important is community involvement to you?

Small town community involvement is very important. As a long-term resident, you feel obliged to be heavily involved in the community and give back. I am currently on my second term as a Broome Shire Councillor. I believe that by serving as a local government member, I can assist in the future direction of our town for future generations.

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

In line with being a tax professional as a CPA, it was very important that I held the equivalent level as a financial planner. It's very important for our clients that we have the required skill set, knowledge and recognition in our chosen industry at the highest standard possible.

### 4. How did you approach your studies for CFP® Certification?

I commenced by becoming a CPA specialist in Financial Planning and then decided to complete my CFP® Certification

qualifications. It has taken a number of years to get it done. Running a business, being heavily involved in community duties and studying are all challenging tasks at the best of times!

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

I believe planners in the financial planning industry should all be encouraged to complete the CFP® designation, as it lifts the level of professionalism across the industry. Our industry has received a lot of criticism over the years, but by demonstrating a high level of education and experience, this will benefit our profession immensely.

Structured and ongoing education is important in any industry, as it ensures a professional has the up-to-date skills, knowledge and discipline required to do their job.

I think it should be compulsory that all financial planners are required to obtain their CFP® designation in order to practise.

I know some people won't agree with me, but I put it like this: Why, as an accountant in the accounting profession, are you required to hold a practising certificate as a CA or CPA, for example, in order to practise, but to practise as a financial planner, you don't?

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

I think the most challenging aspect facing the profession is continuing to prove that our profession is valuable in assisting clients in their financial needs. Over the years, we have been experiencing increasing and unnecessary red tape and compliance, which is making our delivery of advice to clients too onerous and costly to produce.

Lifting the level of professionalism by way of the CFP® designation is one way to demonstrate the industry's commitment to raising professional standards. By doing so, the unnecessary compliance that we are currently experiencing, can be streamlined.

Personally, I am finding it very difficult as a sole practitioner in financial planning to deliver advice to clients and get through the level of compliance paperwork, whilst minimising the cost for clients.

Unfortunately, this is the result of individuals who have done the wrong thing and have jeopardised the trust in the profession. Naturally, this can happen in any industry, but we just happen to be in the spot light. We need to change that perception.

**7. What's been the best financial words of wisdom you've been given and who were they from?**

"A dollar saved is a dollar earnt," – my father, Kim Male. I guess this explains a lot of my conservative nature!

# The future you want

With this year's FPA Professionals Congress kicking off on 18 November, FPA chief executive Mark Rantall CFP® shares his thoughts on the theme of this year's Congress – Shaping Futures – and what this means for the profession.

We live in an age of disruption. Everywhere you look, traditional processes are being challenged and tested by new technologies. But if you've ever questioned the future of the financial planning profession, talk to Mark Rantall. His vision for the profession is not only cogent but infectious.

With the spotlight firmly focused on the financial planning profession as never before, Mark says it's appropriate that the theme for this year's Congress – Shaping Futures – was chosen, because "the profession will shape its own future".

"We are each responsible for shaping our own future. You can create the future you want," he says.

"Shaping futures is what financial planners do for their clients every day. But it's just as relevant to shape the future of a business, and enterprise or anything else you want to achieve in life," he says. "Shaping futures means shaping the future you want."

Mark is passionate about the role the FPA plays in shaping the future of professional financial planning in this country. It's a position he has exhaustively campaigned on for the past five years in his role as the FPA's chief executive officer.

"The FPA stands with Australians for a better financial future. Every day, the FPA seeks to lift the standards of education and professional advice in this country," he says. "To this end, we have created a 10-point plan that creates a better financial planning framework in terms of the level of education and professional standards required for the profession. It creates an environment where financial planning can and will become a respected profession."

Mark is adamant that lifting professional standards will be achieved through CFP Certification, higher education standards, professional standards of advice and holding FPA members accountable to those standards, and with the FPA continuing to lead the industry through Government legislative reform.

So, armed with a clear vision of where the profession is heading, what excites Mark the most about this year's Congress?

"I like the concept of Shaping Futures," he says. "It's a theme that is relevant to everybody. It creates an environment where every speaker will have a forward looking focus. The other exciting part of the Congress is the format we'll be using this year."

Mark is referring to the short, sharp TED-style presentations that will feature on both days of the Congress.

"For the first time ever, instead of having the standard keynote format throughout the Congress, we have got fast-paced, dynamic presentations that will be delivered in a TED-style format. We have lined up some very inspirational Australians for these sessions," Mark says.

"By delivering their messages in this format, I believe it's going to create a level of excitement that we haven't seen at Congress before. So, this format is in keeping with the Congress' theme, 'Shaping Futures', because we're actually trying something quite different to the standard format."

> "Shaping futures is what financial planners do for their clients every day."

And by attending, what does he believe are some of the key outtakes members will take away from this year's Congress?

Mark limits his response to three – inspiration, education and peer networking.

"Firstly, there is the inspiration members will get by interacting with their professional peers and listening to some genuine thought leaders. It's about being inspired to lift yourself, your business and your clients to a new level, and be better equipped to face and shape the future," he says.

"Secondly, there is the enhanced level of learning members will receive, in a format they simply won't be able to get elsewhere. The workshops and plenary sessions are packed with quality speakers and topics, with the program designed by practitioners for practitioners. So, the relevance of those sessions will be first class.

"And thirdly, members can expect better connectivity with their professional peers. We live in an age of disruption and there are plenty of different ways people can undertake learning, but what can never be replaced is the ability to be able to network with your peers. This means being able to discuss issues you might have, share ideas, and to learn from your peers."

So, when it comes to shaping futures, what advice does Mark have for practitioners to improve their own future and that of their clients?

"I think there are two key things financial planners can do," he says. "They have to make sure they are technically competent. When you're giving advice, you have to ensure you are up-to-date, that you have a focus on lifelong learning, and you have the confidence to provide advice in the relevant areas your clients need advice in.

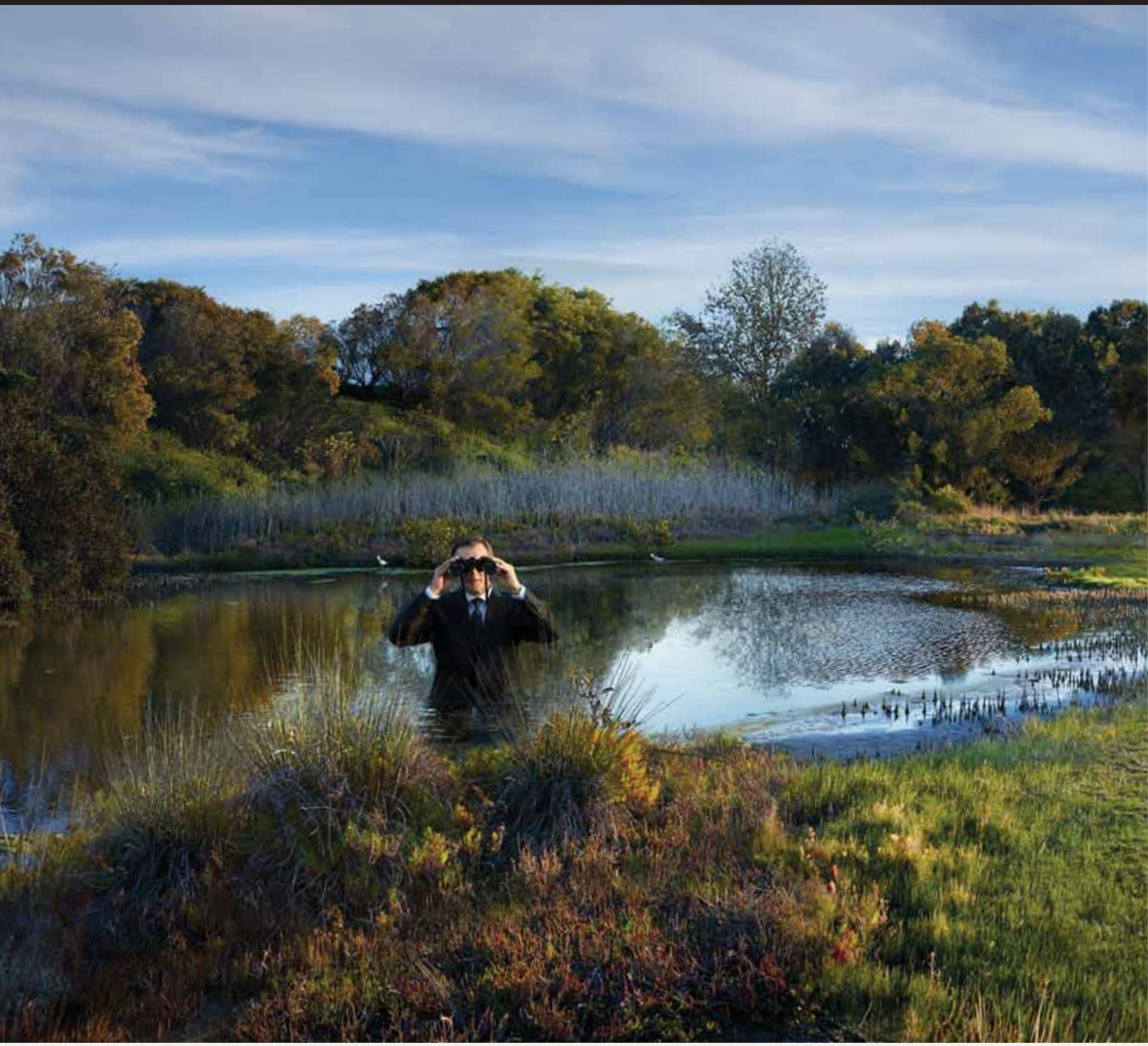
"And the second key driver is to ensure that the client is always at the centre of everything you do. That is the heart of the Best Interest Duty. It's what great financial planners instinctively do," he says.

"This year's Congress will be our opportunity to shape the future of our profession."

For more information on the FPA Professionals Congress, go to www.fpacongress.com.au

# Save the future

## *Become a retirement conservationist*



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# TED-style keynotes ignite Congress

**This year's FPA Professionals Congress will feature a fresh and dynamic approach to the keynotes, with TED Talk-style sessions designed to give delegates access to more thought leaders and game-changing experts.**

The two Shaping Futures sessions will deliver a series of speakers who will inspire and ignite discussion, and challenge your thinking – both personally and professionally.

The line-up brings together business leaders and respected professionals, including leading financial planners, who are embracing change and willing to share their insights and vision for the future.

On **Day One** of the Congress at 9:20am in a session titled – Shaping Futures: Inspiring stories, three speakers will share their stories of inspiration. They are:

**Li Cunxin** – internationally acclaimed dancer and author of best-selling book, *Mao's Last Dancer*.

**Nigel Marsh** – best-selling author, co-founder of Earth Hour and TED speaker.

**Munjed Al Muderis** – an Australian Associate Professor in orthopaedic surgery, whose pioneering work on prosthetics and patents on titanium devices that he designed has placed Australia at the forefront of osseointegration technology.

At 2:10pm on **Day Two**, the second TED-style session, titled – Shaping Futures: Seize the day, will showcase three inspiring speakers who will share their stories on how they have embraced challenges and change and in so doing, transformed them into opportunities. They are:

**Brad Smith** – the 2010 Young Australian of the Year (Tasmania), Australian Young Entrepreneur of the Year, and International Young Entrepreneur of the Year runner-up, who established the motocross brand 'braaap'.

**Carolyn Miller** – managing director of The Honeycomb Effect and a regular panellist on ABC TV series, *Gruen.*

**Vinh Giang** – 2013 South Australian Entrepreneur of the Year, magician and professional speaker.

**For more information on the FPA Professionals Congress, go to www.fpacongress.com.au**

## Breakfast with Jen

**Respected and awarded journalist, Jennifer Byrne, will be the guest speaker at the Women in Financial Planning breakfast on Thursday, 19 November at 7:30am.**

Jennifer's presentation will be about 'sharing' – sharing what's worked for her and what hasn't over her 45-year career in the media.

"Over the years, I've developed all these principles of living and what works. So, having had a long career in the media, I want to talk about what I've learnt over that period in what is a very tough sector. I want to share with other women what worked and what didn't for me, and why."

A key topic Jennifer will also traverse in her presentation will be the key issues and trends affecting women today, and how they are being resolved.

During the course of her career, Jennifer has worked across a range of media titles and programs, including *The Age* newspaper, Channel Nine's *Sunday* program and *60 Minutes*, ABC TV's *7:30 Report, Lateline* and *Foreign Correspondent*, ABC Radio's 2BL, Radio National's *Breakfast* program and *The Bulletin* magazine.

Delegates are encouraged to book early for this inspiring breakfast presentation. To register, go to www.fpacongress.com.au

## Surviving and thriving

**In a keynote presentation at Congress on Friday 20 November at 9:00am, futurist and digital specialist, Chris Riddell will show how planners must move past disruption and embrace technological change as a way of shaping the future for themselves, the profession and their clients.**

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

- Adapting and embracing change as opportunities for you and your clients;
- The power of human interaction and professional trust in responding to digital disruption; and
- Understanding that it's not about disruption but a redistribution of what it is planners do and how they go about doing it.

Chris' presentation will focus on challenging delegates to look forward to the future and showing them how to tap into trends and technology that is changing on a seemingly daily basis.

He will also talk about the importance of changing mindset, in order to deal with change and volatility that is happening all around us, in order to survive and thrive in this new and changing world.

## FPA Professionals Congress Program: Shaping Futures

earn up to 14.5 CPD hours

| Time | Wednesday 18 November |
|---|---|
| 1:00pm | Registration open |
| 2:30pm | FPA Professional Practice Workshop |
| 6:00pm | Opening night reception |
| 7:30pm | Day concludes |

| Time | Thursday 19 November | | | |
|---|---|---|---|---|
| 7:00am | Registration open | | | |
| 7:30am | Networking breakfast, Exhibition Hall | | **Women in Financial Planning Breakfast with Jennifer Byrne** | |
| 9:10am | Move to Main Hall | | | |
| 9:20am | Congress opening and **TED Talk-style session: Shaping Futures - Inspiring stories** | | | |
| 11:00am | Morning tea, Exhibition Hall | | | |
| 11:30am | **SMSF: One size does not fit all**<br>*David Busoli* | **Understanding disputes and resolving them**<br>*Dr June Smith and Peter Richards CFP®* | **Extraordinary leadership: The five practises that create great workplaces**<br>*Michael Bunting* | **Happy body, happy mind**<br>*Anna-Louise Bouvier* |
| 12:30pm | Networking lunch, Exhibition Hall | | | |
| 1:45pm | **Is risk advice now risk-free?**<br>*Dante De Gori CFP® and Mark Everingham CFP®* | **How to buy, sell or start your own practice**<br>*Phillip Win CFP®, Stephen Prendeville, Catherine Robson CFP®* | **The power of storytelling for business: Why it is the missing link in business**<br>*Yamini Naidu* | **Integrated mindfulness**<br>*Michael Bunting* |
| 2:45pm | Transition between workshops | | | |
| 3:05pm | **Taxing times**<br>*Ken Mansell* | **Taking a risk: Profiling do's and don'ts**<br>*Dr Katherine Hunt* | **Giving feedback: How to hold a 'tough conversation'**<br>*Karen Gately* | **Vocal intelligence**<br>*Dr Louise Mahler* |
| 4:05pm | Transition between workshops | | | |
| 4:25pm | **Death and taxes**<br>*Scott Hay-Bartlem* | **The future of risk advice**<br>*Mark Everingham CFP®* | **Understanding and managing employment related risk**<br>*Karen Gately* | **Social media to build your personal brand**<br>*Kylie Bartlett* |
| 5:25pm | Free time | | | |
| 7:30pm | Future2 Gala Dinner | | | |

| Time | Friday 20 November | | | |
|---|---|---|---|---|
| 7:00am | Registration open | | | |
| 7:30am | Networking breakfast, Exhibition Hall | | | |
| 8:45am | Move to Main Hall | | | |
| 9:00am | **Keynote speaker: Roll up your sleeves with Chris Riddell** | | | |
| 10:00am | Morning tea, Exhibition Hall | | | |
| 10:30am | **Meet the regulators**<br>*Dante De Gori CFP®, Ian Taylor, Louise Macaulay* | **Demographic change and your practice**<br>*Mark McCrindle* | **Why small steps forward are better than giant leaps**<br>*Nigel Collin* | **How to have better conversations**<br>*Anna McPherson* |
| 11:30am | Transition between workshops | | | |
| 11:45am | **Ageing gracefully**<br>*Louise Biti CFP®* | **Robo-advice**<br>*Paul Derham, Grant Holley* | **Neuroscience of leadership**<br>*Kristen Hansen* | **How to stay calm**<br>*Rob O'Donnell* |
| 12:45pm | Networking lunch, Exhibition Hall | | | |
| 2:00pm | Move to Main Hall | | | |
| 2:10pm | **TED Talk-style session: Shaping Futures - Seize the day** | | | |
| 3:45pm | FPA Professionals Congress closes | | | |

* Program subject to minor changes  Expand  Grow  Engage  Inspire

# Congress Workshop Program

*Industry experts and leading CFP® practitioners fill a program of 24 workshops across four dedicated workshop streams – Expand, Grow, Engage and Inspire. Each session is accredited with 1 CPD hour. The following is a preview of the sessions.*

## *Expand*

Led by industry experts, these sessions will enhance your technical capability and critical thinking in financial planning specialty areas. This in-depth knowledge will help you create better solutions for your clients.

### SMSF: One size does not fit all

SPEAKER: **David Busoli**, National Education Manager, AMP SMSF

TIME: 11:30am-12:30pm, Thursday 19 November
CRITICAL THINKING (1 CPD hour)
TECHNICAL COMPLEXITY: Medium

### Is risk advice now risk-free?

SPEAKERS: **Dante De Gori CFP®,** General Manager, Policy and Conduct, FPA and **Mark Everingham CFP®**, Managing Director, Personal Risk Professionals

TIME: 1:45pm-2:45pm, Thursday 19 November
CAPABILITY (1 CPD hour)
TECHNICAL COMPLEXITY: Low

### Taxing times

SPEAKER: **Ken Mansell**, Tax trainer and writer, Tax Rambling

TIME: 3:05pm-4:05pm, Thursday 19 November
CRITICAL THINKING (1 CPD hour)
TECHNICAL COMPLEXITY: High

### Death and taxes

SPEAKER: **Scott Hay-Bartlem**, Partner, Cooper Grace Ward Lawyers

TIME: 4:25pm-5:25pm, Thursday 19 November
CRITICAL THINKING (1 CPD hour)
TECHNICAL COMPLEXITY: High

### Meet the regulators

SPEAKERS: **Dante De Gori CFP®**, FPA; **Ian Taylor**, TPB; **Louise Macaulay**, ASIC

TIME: 10:30am-11:30am, Friday 20 November
CAPABILITY (1 CPD hour)
TECHNICAL COMPLEXITY: Low

### Ageing gracefully

SPEAKER: **Louise Biti CFP®**, Director, Strategy Steps and Aged Care Steps

TIME: 11:45am-12:45pm, Friday 20 November
CAPABILITY (1 CPD hour)
TECHNICAL COMPLEXITY: High

## *Grow*

These sessions are designed for the practice management professional and will enhance the operational aspects of your financial planning practice. You will learn best practice concepts specific to financial planning and identify key trends impacting how you operate your practice.

### Learning from the mistakes of others

SPEAKERS: **Dr June Smith**, Lead Ombudsman, Financial Ombudsman Service; **Peter Richards CFP®**, Director, Parallel Financial

TIME: 11:30am-12:30pm, Thursday 19 November
PROFESSIONAL CONDUCT (1 CPD hour)

### How to buy, sell or start your own practice

SPEAKERS: **Phillip Win CFP®**, Director, Profile Financial Services; **Stephen Prendeville**, Director, Forte Asset Solutions; **Catherine Robson CFP®**, Chief Executive Officer, Affinity Private

TIME: 1:45pm-2:45pm, Thursday 19 November
CAPABILITY (1 CPD hour)

### Taking a risk: Profiling do's and don'ts

SPEAKER: **Dr Katherine Hunt**, Lecturer, Griffith Business School

TIME: 3:05pm-4:05pm, Thursday 19 November
ETHICS (1 CPD hour)

### The future of risk advice

SPEAKER: **Mark Everingham CFP®**, Managing Director, Personal Risk Professionals

TIME: 4:25pm-5:25pm, Thursday 19 November
CAPABILITY (1 CPD hour)

### Demographic change and your practice

SPEAKER: **Mark McCrindle**, Social Researcher

TIME: 10:30am-11:30am, Friday 20 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### Robo-Advice: Terminator or WALL-E?

SPEAKERS: **Paul Derham**, Partner, Holley Nethercote; **Grant Holley**, Partner, Holley Nethercote
TIME: 11:45am-12:45pm, Friday 20 November
CAPABILITY (1 CPD hour)

## *Engage*

These sessions will cover how best to engage, grow and develop your clients, your people and your business. Discover techniques to innovate your business, build trust and authenticity, and refine your communication skills to foster better relationships.

### Extraordinary leadership: The five practises that create great workplaces

SPEAKER: **Michael Bunting**, Mindfulness and Leadership Guru

TIME: 11:30am-12:30pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### The power of storytelling for business: Why it is the missing link in business

SPEAKER: **Yamini Naidu**, Business Communications Expert

TIME: 1:45pm-2:45pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### Giving feedback: How to hold a 'tough conversation'

SPEAKER: **Karen Gately**, People Management Specialist

TIME: 3:05pm-4:05pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### Create a happy workplace: Understanding and managing employment related risk

SPEAKER: **Karen Gately**, People Management Specialist

TIME: 4:25pm-5:25pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### Effective innovation: Why small steps forward are better than giant leaps

SPEAKER: **Nigel Collin**, Innovator and Problem Solver

TIME: 10:30am-11:30am, Friday 20 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### The neuroscience of leadership: Use your brain to your advantage for peak performance

SPEAKER: **Kirsten Hansen**, Neuroscience Researcher and Leadership Expert

TIME: 11:45am-12:45pm, Friday 20 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

## *Inspire*

Hone and maintain your own personal development and motivation goals in a series of sessions that will discuss and demonstrate how to be fit for the future, both mentally and physically.

### Happy body, happy mind: How your body can change your brain to combat stress and depression

SPEAKER: **Anna-Louise Bouvier**, Expert in Mind and Body Wellbeing

TIME: 11:30am-12:30pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### Integrated mindfulness: Two key practises to transform your leadership and your life

SPEAKER: **Michael Bunting**, Mindfulness and Leadership Guru

TIME: 1:45pm-2:45pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### Vocal intelligence

SPEAKER: **Dr Louise Mahler**, Communication Specialist

TIME: 3:05pm-4:05pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### Brand YOU 2.0: How to use social media to build your personal brand

SPEAKER: **Kylie Bartlett**, Social Media Coach

TIME: 4:25pm-5:25pm, Thursday 19 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### How to have better conversations

SPEAKER: **Anna McPherson**, The School of Life

TIME: 10:30am-11:30am, Friday 20 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

### How to stay calm

SPEAKER: **Rob O'Donnell**, The School of Life

TIME: 11:45am-12:45pm, Friday 20 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

* Program subject to minor changes.

# The layered approach

**With a rapidly ageing population that is living longer, there is no one solution for addressing the retirement income needs of Australians. But as Jayson Forrest discovered, annuities are playing an increasingly important role in delivering a more integrated approach to capital preservation in retirement.**

As a nation, we're all living longer. It's an undeniable fact supported by the 2015 Intergenerational Report, which showed that Australians are living longer and healthier lives, while enjoying one of the longest life expectancies in the world.

According to the Intergenerational report, by 2055 there will be only 2.7 working Australians for every Australian over 65, compared with 4.5 today and 7.3 in 1974-75. Life expectancy at birth will be 95.1 years for men and 96.6 years for women, compared with 91.5 and 93.6 years today, while those living to the age of 100 or over will increase to 40,000, compared to 122 in 1974-75.

However, while living longer and healthier lives may sound like great news for people approaching retirement, there's no escaping the fact that Australia's rapidly ageing population continues to add pressure on the retirement funding needs of retirees and the Government's funding of social security entitlements.

It sounds like the perfect environment for a longevity product. And that's where annuities come in – not as the silver bullet to funding the retirement needs of Australians, but as part of a more integrated solution.

Compared to other countries, at 5 per cent, Australia has traditionally had a low investment in annuities. In contrast, the uptake in other developed countries, like Switzerland (80 per cent), UK (75 per cent) and Denmark (50 per cent) is much higher. Why?

The Head of Annuities, Superannuation and Investments at CommInsure, George Lytas attributes this low uptake to the recent and significant bull run the Australian equities market has recorded.

"Historically, the Australian share market has had very good investment returns, and as such, there hasn't really been a focus on longevity risk. Interestingly, some of those other countries with a high investment in annuities have had mandated amounts going into annuities. These overseas markets recognise the benefits and flexibility annuities provide, more so than what we've seen in the Australian market."

The annuities market in Australia is currently worth $11 billion, but Plan For Life predicts this figure to grow to $23 billion by 2024. This increase is based on the work annuity providers are doing in terms of educating planners and investors about the risks that Australians face funding their retirements, and the benefits annuities provide in addressing those longevity risks.

## Risks

But with Australia's rapidly ageing population and higher life expectancy, does that mean traditional defensive assets, like annuities and term deposits, are no longer suitable retirement strategies for retirees who may out-live their investment savings in their golden years?

Not so, says Lytas, who agrees that annuities form part of a wider solution to addressing Australia's looming longevity issues, and believes any retirement strategy needs to focus on a layered approach to retirement income, which may include incorporating a growth style asset allocation to balance the defensive nature of an annuity.

"If you take term and cash products, for example, they can address some of the risk, such as sequencing risk. But the one risk they cannot address is longevity risk and longevity protection. It's really only lifetime annuities and longevity products that can provide for that longevity risk, which is a significant risk that retirees face," Lytas says.

"So, planners need to be thinking about implementing a combination of strategies for their retiree clients, which best address these longevity issues."

Senior financial planner, Kellie Killgallon CFP®, agrees that through medical advancements and healthier lifestyles, Australians are living longer and this is a very real issue that clients face as they consider their retirement funding options.

"Lifetime and/or long-term indexed annuities can help to counter the longevity risk by providing a guaranteed level of secure, regular income that can also keep pace with inflation and in doing so, helping to alleviate the worry that clients will outlive their retirement savings," Killgallon says.

"Building in a guaranteed period also provides annuitants with the peace-of-mind that, should they pass away during this guaranteed period, some or all of their capital is returned to their beneficiaries. In some instances, clients have the choice of either having all or a portion of their capital returned to them at the end of the guaranteed period, or continuing with regular income payments for their lifetime."

> "Planners need to be thinking about implementing a combination of strategies for their retiree clients, which best address these longevity issues."
>
> **George Lytas**

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**George Lytas**

In addition to longevity risk, Lytas believes there are another three key risks planners should be aware of when formulating a plan for the retirement needs of their clients. These key risks are: market risk, sequencing risk and inflation risk. And he believes a retirement strategy that combines annuities is ideal for addressing these four key risk areas.

"Longevity risk is clearly addressed by annuities. In terms of inflation risk, by combining an account-based pension with a lifetime annuity, it can provide a superior outcome in retirement. With a lifetime annuity, we're talking about either a fully or partially inflation-adjusted annuity. Therefore, if you're investing $100,000 into an annuity and it's currently paying an income-stream, because you add a partial indexation for inflation, the income you're drawing from the annuity is keeping track with inflation.

"In terms of market risk, if you're entering into retirement and you're allocating a portion of your account balance to an annuity, the balance doesn't fluctuate with market returns," he says.

"And with sequencing risk, you're not impacted by having negative returns in the early years that deplete your balance. So, I believe annuities are a very good vehicle for addressing those four key risks."

## Planner uptake

Despite Australia's low investment in annuities of just 5 per cent, more planners are warming to annuities. According to market research company, Investment Trends, there are more planners now recommending annuities than ever before.

The results of its latest research in the Australian annuities market, conducted at the end of 2014, showed that 38 per cent of planners recommended annuities in 2014, up from 32 per cent in 2013 and 37 per cent in 2012.

In explaining the increase, Investment Trends senior analyst, Recep Peker says planners are seeing a greater role for annuities as part of their retirement advice.

"In recommending annuities, planners are responding to client concerns such as longevity risk," Peker says. "Healthy client interest will continue to buoy planner appetite for annuities in the current low interest environment."

Peker says the trend towards lifetime annuities continues to grow. According to the Investment Trends research, lifetime annuities are the guaranteed income product of choice, with 39 per cent of planners saying they intended to use them in 2015, compared with 31 per cent for long-term annuities (five years or more) and 21 per cent for short-term annuities (less than five years).

In comparison, in 2014, 19 per cent of planners used lifetime annuities, compared with 20 per cent for long-term annuities and 17 per cent for short-term annuities.

Killgallon says she does consider the use of annuities to help generate retirement income, but only when they form part of an appropriate retirement strategy for clients.

"I find that by including term and/or lifetime annuities, they can work favourably in conjunction with the Age Pension benefits to provide clients with a level of income certainty to cover their basic spending needs," she says.

"Depending on each client's individual circumstances, incorporating a long-term and/or lifetime annuity as part of their overall strategy can also provide a favourable outcome for potentially maximising their ongoing Centrelink benefits and reducing the assessable income for ongoing means-tested fees for clients entering or in aged care."

## Income layering

With this steady increase in planners including annuities in their retirement advice, Lytas still recommends that planners look upon annuities as only one part of the retirement income stream equation, particularly when it comes to achieving inflation-like growth for retirees.

Indeed, while annuities can act as a form of insurance in retirement, guaranteeing a source of income for the retiree regardless of how their other investments have performed, or how quickly their retirement savings have been used up, planners still need to determine the optimal solution for each client. That's where income layering comes in.

Income layering is a way of matching a client's cash flow to different types of expenses, which can best be achieved through diversifying various income streams. Diversification can reduce a client's exposure to risk, while potentially providing tax and social security benefits from using a combination of guaranteed annuities, account-based pensions and other income streams.

"Allocated pensions perform well for many retirees, however, as they live longer, their allocated pension balance may not last the distance. A combination of an allocated pension and a lifetime or deferred annuity can often provide superior outcomes to an allocated pension alone," Lytas says.

He adds this goes back to the fact that over half of retirees will live beyond their life expectancy.

"So, how much do you need to allocate to a lifetime annuity? That's where an income layering strategy comes in," he says. "The role of the financial planner is to

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**Kellie Killgallon**

work out how much Age Pension the retiree qualifies for and what the gap is between the base level of living expenses they cannot live without. That gap is an amount you can allocate to a lifetime annuity, so therefore, the client is always guaranteed of receiving that minimum level of income that they want in retirement. You can then allocate the remainder to the account-based pension, which is allocated to market-linked investments.

"And because you're allocating to a lifetime annuity, which you know forms part of your defensive asset allocation, if you work out the risk tolerance of the pre-retiree, you can then allocate some of the additional balance to a growth or balanced style asset allocation in order to capture any market upswing," Lytas says.

"A retirement income stream is not all about annuities," he adds. "It's about providing an integrated and layered approach to the income needs of your clients. Using a combination of the Age Pension, an annuity and an account-based pension can not only help diversify a retiree's income stream, but provide them with better outcomes than just an allocated pension alone."

Killgallon agrees there is no ideal asset allocation or strategy when considering a client's retirement income needs, as each individual scenario presents many different needs and objectives.

"In my experience, it's rare to find one particular strategy, investment vehicle or asset class that will continually meet the ongoing needs of a client. However, by incorporating a diversified approach to both asset classes and investment vehicles (where possible), a client can achieve an income layering type of effect with their overall retirement portfolio," she says.

"The client's basic needs are met by a combination of Centrelink benefits and guaranteed income from defensive assets or annuities. The major portion of their remaining retirement funds are placed in a broader diversified asset allocation, which provides the potential for capital growth over the longer term and extends the life of their investment."

## Challenges

When convincing planners and retirees about the benefits of annuities in a retirement income stream, Killgallon says education and flexibility still remain the two key challenges for the sector to overcome.

"A regular concern I hear from investors and retirees considering annuities as an investment option is their perception that they are 'locking' away their funds for a long period of time and also having their funds 'die with them', leaving nothing for their estate. Education is the key. It allows the client to understand the benefits and make a well-informed decision around the investment of their funds," she says.

As a planner, Killgallon believes another challenge for the annuities sector is to be able to deliver a product that is easy for investors and retirees to understand and one which continues to evolve with their needs and requirements, as well as the continual changes in legislation. In doing so, she says planners will ensure they continue to have a foothold in a client's overall retirement portfolio.

"Particularly with an ageing population, maximising Centrelink benefits and minimising ongoing aged care costs are going to be areas requiring continuing advice and a strong focus on strategy for retiree clients."

Lytas agrees that overcoming the cost argument and some common misconceptions around the flexibility that annuities now provide, remains a challenge for the sector.

"There is a common misconception that with a lifetime annuity, you invest in a product that hedges out longevity risk and provides a guaranteed income for life, but if you die, say in five years, you lose access to your capital. Today's lifetime annuities are a lot more flexible than that," he says.

In CommInsure's case, its lifetime annuities offer guaranteed payment periods up to life expectancy. For example, if you're 65, you can take out a lifetime annuity with a guaranteed payment period of around 19 years, which is considered to be your life expectancy. But if you die in five years' time at 70, your estate will qualify for the remainder of the 14 years' of income payments. "So, annuities are a lot more flexible than what many people may think," Lytas says.

And what about the current low interest rate environment?

He agrees this can be a disincentive to some investors in terms of taking out a lifetime annuity, but he adds you also need to consider what other alternative investments are available for retirees, which also provide the same level of inflation-linked income payments that are guaranteed for life.

"Going into a term deposit means locking in a low interest rate. As for going into a fixed income investment, if interest rates move, you're going to either have a capital gain or a capital loss. Again, that's not something that some retirees can easily absorb.

"So, really, there aren't that many other styles of investments that can provide that guaranteed income for life. And as I said, even in a low interest rate environment, because you are picking a partial inflation-linked option on your lifetime income, if interest rates were to go up, inflation goes up, your income payments go up as well, so you do benefit from that rise in inflation."

Interestingly, the impending changes to social security that come into effect from January 1, 2017 are also likely to spur greater interest in the annuities sector.

An increase to the assets test free area and the assets taper rate are likely to make annuities even more attractive to retirees. Allocating a portion to long-term annuities is one of the key advice strategies which can maximise Age Pension entitlements.

## Growth

Although coming off a relatively low base in Australia, Lytas says there is definite interest in the lifetime income sector for clients wanting to lock in a guaranteed income for life.

"We are also seeing interest in the 0 per cent residual capital value (RCV) space, mainly in the aged care area, where planners are working with their clients to maximise social security entitlements. These are more fixed term investments up to about 10 years, with a 0 per cent RCV."

According to Lytas, an RCV is the amount nominated to be returned to the policy owner as a lump sum at the end of the fixed term. However, an RCV is not available for complying or lifetime income annuities.

"But we're also seeing interest in the 100 per cent RCV space up to about five years, because there's a margin that we're paying over what you'd get in the swap market. So, planners are locking in a range of one, three and five year 100 per cent RCV annuities, to provide a higher income for their retiree clients."

But he adds there is no one segment of the annuities sector that is gaining greater interest than the other.

And what about Deferred Lifetime Annuities (DLAs)?

While DLAs are not yet available in Australia, nonetheless, this is a segment of the annuities market that not only excites Lytas but most planners.

"There's definitely a place for Deferred Lifetime Annuities. It's a solution I believe can add significant value to planners and their clients," he says.

According to a survey of 617 planners by Investment Trends, more than 80 per cent of planners are open to using DLAs, if they were available in Australia.

"Deferred lifetime annuities are pure longevity insurance products that can help clients mitigate longevity risk because the product makes future dated payments," says Investment Trends senior analyst, Recep Peker.

Eighty-three per cent of planners said they would use DLAs or similar products, with access and flexibility considered to be the most attractive features.

"There's strong planner appetite for deferred lifetime annuities in Australia," Peker says. "However, to ensure the success of DLAs, product providers need to ensure that planners' minimum product feature requirements are met."

Of the planners who would use DLAs if they were available, 54 per cent said liquidity access was a necessary feature, followed by 40 per cent who nominated the availability of DLAs in superannuation.

Peker says that among planners who already use annuities, the percentage open to DLAs increased to 96 per cent, demonstrating a positive experience with annuity products.

Although the Financial System Inquiry has recommended that the Government look at removing tax impediments to products like DLAs, which is part of Treasury's retirement income stream review, as to when DLAs will be available in Australia, Lytas is unsure.

"Treasury has issued its discussion papers and the industry has responded, so really, we're just waiting on a decision from Government. As an industry, we hope DLAs get the green light from Treasury sooner, rather than later."

> Particularly with an ageing population, maximising Centrelink benefits and minimising ongoing aged care costs are going to be areas requiring continiuing advice and a strong focus on strategy for retiree clients."
>
> **Kellie Killgallon**

KATE ANDERSON

IOOF

THIS ARTICLE IS WORTH
**0.5 CPD HOURS**
**CRITICAL THINKING**

**Includes**

- **Small business entity test or turnover test**
- **Active asset test**
- **CGT concession stakeholder test**

# Adding value to the small business CGT concessions

For many small business owners, the major source of retirement funding is the sale of their business or assets owned by the business. Fortunately, there are a number of capital gains tax (CGT) concessions available to small business that reduce or even eliminate the capital gain on the disposal of certain assets.

It's important to understand the concessions available and the eligibility requirements to ensure entitlements are maximised.

In this article, we review the eligibility criteria required to qualify for the small business CGT exemptions and examine in detail how these concessions can most effectively be applied.

## Types of concessions

There are potentially four small business CGT concessions:

- 15-year exemption;
- 50 per cent active asset reduction;
- Retirement exemption; and
- Rollover exemption.

In addition, where the taxpayer is an individual, a partner in a partnership or a trust, they may also be entitled to the general 50 per cent discount that applies to assets held longer than 12 months. This is a compulsory concession and must be applied before any of the remaining small business concessions.

## Eligibility criteria

To be eligible for the CGT concessions available to small businesses on disposal of an asset, the following eligibility conditions need to be met:

- Satisfy the net asset value test or small business entity test;
- Meet the active asset test;
- Where the asset is shares in a company, or units in a trust:
  - The taxpayer claiming the concession is a CGT concession stakeholder in the company or trust; or
  - If the disposing entity is a company or trust, CGT concession stakeholders in the company or trust have a small business participation percentage in the interposed entity of at least 90 per cent.

If these initial set of basic conditions are met, the disposing entity must then meet additional eligibility conditions that apply respectively to each of the four small business concessions:

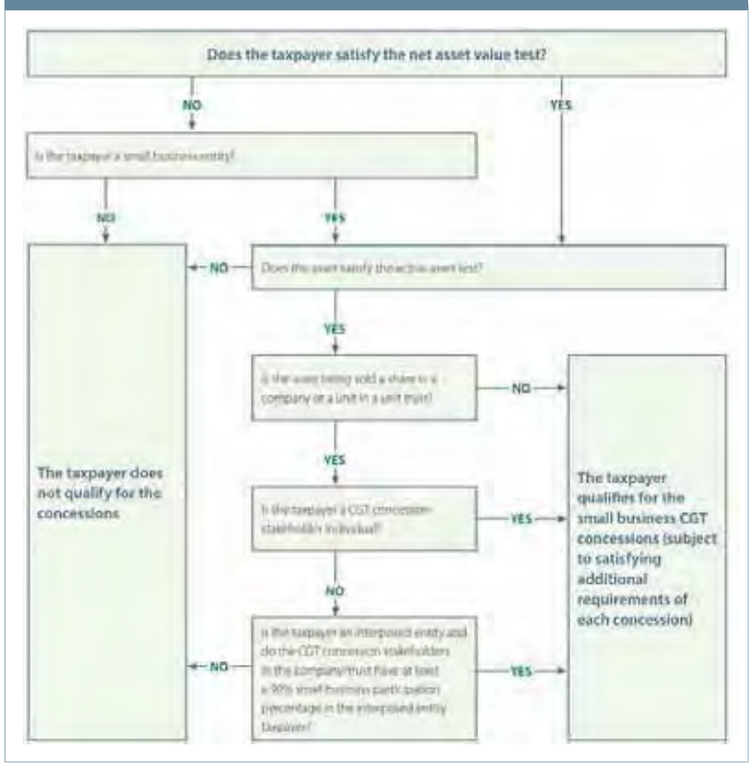
- 15-year exemption;
- 50 per cent active asset reduction;
- Retirement exemption; and
- Rollover exemption.

The flowchart illustrates how taxpayers navigate through the initial set of basic conditions.

## The net asset value test

The test requires the total net asset value (NAV) of CGT assets (less excluded assets) owned by the following entities to be no more

**Flowchart**



than $6 million just before the CGT event occurs:

- The taxpayer;
- Entities connected with the taxpayer;
- Small business CGT affiliates of the taxpayer, or of entities connected with small business CGT affiliates of the taxpayer.

Where a partnership exists, and the taxpayer is a partner, the NAV test only counts the assets of each relevant partner, not the partnership as a whole.

In calculating the NAV of the CGT assets, most liabilities of the entity related to the assets are deducted. Certain provisions, such as provisions for annual leave, can also reduce the NAV.

**Excluded CGT assets**

Table 1 shows the key assets that are excluded from the NAV test.

## Small business entity test or turnover test

The small business entity (SBE) test is used to determine whether an entity is a small business entity. To be considered a small business, the taxpayer must be carrying on a business and have an aggregated turnover of less than $2 million.

Access to the concessions by way of the turnover test also extends to:

- Taxpayers who are not carrying on a business but who own a CGT asset that is used in the business of an affiliate or entity connected with the asset owner;
- Partners who own a CGT asset (that is not an interest in a partnership asset) used in the partnership business.

**Aggregated turnover**

Aggregated turnover is the annual turnover of the taxpayer and any other entity that is connected with the taxpayer or which the taxpayer has influence over. Generally, aggregated turnover is calculated by looking at the turnover of the previous income year. If it was less than $2 million, then the taxpayer is a small business entity.

**Calculating aggregated turnover**

Annual turnover includes all gross income earned in the ordinary course of business in the income year. Where a business starts or ceases partway through an income year, a reasonable estimate of what would have been earned had the business operated for the full income year is required.

The aggregated turnover test is relatively simple where the taxpayer has no connected or affiliated entities. However, where such entities exist, calculating aggregated turnover can be much more complex.

## Active asset test

The active asset test requires that the asset being disposed of is an active asset for a specific period of time as follows:

- if the asset was owned for 15 years or less, the asset was an active asset for a total of at least half the relevant period;
- if the asset was owned for more than 15 years, the asset was an active asset for at least 7.5 years during the relevant period.

The relevant period starts on the acquisition date of the asset and ends on the earlier of the CGT event and the day the business ceases if it is ceased within 12 months before the CGT event.

There is no requirement for the asset to be an active asset for a continuous period nor does the asset have to be active at the time of disposal. Therefore, any periods that the asset is an active asset can be aggregated to determine if the test is met.

## CGT concession stakeholder test

Where the assets being sold are shares in a company or units in a trust, an additional basic condition needs to be met depending on whether the disposing entity is an individual or a company/trust.

If the taxpayer is an individual, then they will qualify if they are a CGT concession stakeholder in the company or trust in which the taxpayer holds the shares or units.

If the taxpayer is a company or trust, it must satisfy the 90 per cent test. The entity satisfies the 90 per cent test if 90 per cent of the small business participation percentages in that entity are held by CGT concession stakeholders of the company or trust in which the shares or interests are held.

## CGT concession stakeholders

An individual is a CGT concession stakeholder of a company or trust if they are a significant individual or

*Continued on p30*

**Table 1: Excluded CGT assets from the NAV test**

| | |
|---|---|
| **Interests in another entity** | Shares, units or other interests (except debt) will not be counted for a taxpayer's NAV test where those interests are in another connected entity, or an affiliate of the taxpayer. This is because the CGT asset value of these entities are already included in the NAV of the taxpayer. |
| **Assets excluded for individual taxpayers only** | The following are excluded from an individual's NAV:<br>• Assets used solely for the enjoyment of an individual or their affiliate (unless the asset is a main residence).<br>• A main residence to the extent that it is used for private purposes.<br>• Superannuation assets.<br>• An insurance policy on an individual's life. |
| **CGT assets of others and a taxpayer's NAV** | Any asset of an affiliate or entity connected with an affiliate is only counted for the taxpayer's NAV if the asset(s) is used, or held ready for use, in a business conducted by the taxpayer or entity connected with the taxpayer.<br>Assets used in the business of an entity that are connected with the taxpayer only because of the taxpayer's affiliate are also excluded from the taxpayer's NAV. |

**Table 2: Angus' assets**

| Asset | Value |
|---|---|
| Main residence | $785,000 |
| Investment property | $390,000 |
| Managed investment | $200,000 |
| SMSF | $500,000 |
| Car | $70,000 |
| Boat | $55,000 |
| **Total** | **$2,000,000** |

the spouse of a significant individual where the spouse has a small business participation percentage in the company or trust at that time that is greater than zero.

## Significant individuals

An individual is a significant individual in a company or trust if they have a small business participation percentage in the company or trust of at least 20 per cent. The 20 per cent can be made up of direct and indirect percentages.

## Small business participation percentage

The small business participation percentage of an individual is the sum of the individual's direct and indirect small business participation percentage in the other entity at that time.

**Companies**
An entity's direct small business participation percentage in a company is the percentage of:

- Voting power that the entity is entitled to exercise;
- Any dividend payment that the entity is entitled to receive;
- Any capital distribution that the entity is entitled to receive.

If an entity has different participation percentages in a company, their participation percentage is the smaller or smallest percentage.

**Trusts**
For trusts where entities have entitlements to all of the income and capital of the trust, the direct small business participation percentage of an entity is the smallest of their percentage of the following:

- The income of the trust that the entity is beneficially entitled to receive; or
- The capital of the trust that the entity is beneficially entitled to receive.

For trusts where entities do not have entitlements to all of the income and capital of the trust, and the trust makes an income or capital distribution, the direct small business participation percentage of an individual is the smallest of their percentage of the following:

- Distributions of income that the entity is beneficially entitled to during the income year; or
- Distributions of capital that the entity is beneficially entitled to during the income year.

Where there is no income or capital distribution in an income year, then no significant individual exists.

## Case study 1

Angus is 59 with no spouse or dependants and owns a successful computer business. Angus purchased the business in 2005 for $450,000. Since then it has turned into a highly successful business, which he would like to sell for $1.95 million.

Angus intends to retire permanently from the workforce after the sale.

His personal assets are as follows in Table 2. Table 3 outlines determining the eligibility for small business concessions, and Table 4 refers to applying the CGT concessions to calculate the net gain.

As Angus is over age 55, he has two options for the part of the proceeds representing the CGT retirement exemption:

- Contribute the amount to super; or
- Take it as a cash lump sum.

If the business had been set up as a company, partnership or trust, the concessions may still be available, although his retirement and the final result may differ.

## Case study 2

Tom and Katy are a married couple in their late 30s and own a hairdressing salon called TomKat Pty Ltd.

They are the only shareholders in the business, which they have owned for 10 years. Tom owns 80 per cent and Katy owns the remaining 20 per cent. Tom plans to work for another 10 years while Katy wishes to sell her share of the business.

Tom has offered to buy out Katy's share of the salon.

The current value of the business is as follows:

- Salon worth $1 million (originally purchased for $500,000 with investment capital);
- Goodwill worth $100,000 (no cost base);
- Cash account $200,000 (not an active asset).

The couple's only other asset is their Central Park residence worth $10 million, which is held in joint names.

**Table 3: Determine eligibility for small business concessions**

| Condition | Satisfied | Details |
|---|---|---|
| Eligibility requirements<br>• Has a CGT event occurred?<br>• Has the CGT event resulted in a capital gain?<br>• Is the maximum net asset value test met?<br>- Business $1,950,000<br>- Investment property $390,000<br>- Managed investments $200,000 | <br>Yes<br>Yes<br><br>Yes | $2.54 million |
| Has the asset been owned for 15 years? | No | |
| Does the asset meet the active asset test? | Yes | |
| Has the retirement lifetime limit of $500,000 been used? | No | |
| Make and maintain an election | Yes | |
| Take into account age based options | Yes | |

**Table 4: Apply the CGT concessions to calculate the net gain**

| Step | Description | Amount |
|---|---|---|
| 1 | Calculate gross gain<br>$1,950,000 - $450,000 | $1,500,000 |
| 2 | Calculate standard CGT discount<br>$1,500,000 x 50% | $750,000 |
| 3 | = Assessable gain | $750,000 |
| 4 | Calculate 50% active asset test exemption<br>$750,000 x 50% | $375,000 |
| 5 | = Assessable gain | $375,000 |
| 6 | Retirement exemption<br>$500,000 lifetime limit | $375,000 |
| 7 | = Assessable gain | Nil |

Katy will sell her shares to Tom for $260,000, being 20 per cent of the company's market value. The accrued capital gain is $160,000 (Katy's base cost being 20 per cent of the investment capital of $500,000 = $100,000).

Katy would like to minimise her capital gains tax position on the sale of her shares in the business.

***Does Katy satisfy the basic conditions?***

Under the small business CGT concessions, Katy satisfies the maximum net asset test. The value of her joint share in the Central Park home is excluded under the test. Katy includes the total net market value of the salon (not just her share), as she and Tom are classed as small business CGT affiliates. This connects her to the business. The business does not exceed the $6 million threshold.

Katy's shares are active assets (assets have been owned for 15 years or less and the asset was an active asset for a total of at least half of the test period).

Katy must be either a significant individual of the business or spouse of a significant individual (where the spouse has a small business percentage in the company or trust that is greater than zero) in order to be a CGT concession stakeholder and therefore able to access the concessions.

a) Katy is a significant individual, as she has a small business participation percentage of at least 20 per cent and therefore is a CGT concession stakeholder.

b) Katy's shares in the salon just prior to the CGT event are considered active assets if the market value of the active assets of the business pass the 80 per cent test.

Refer to Table 5.

Katy meets all of the requirements set out under the basic conditions.

***Which small business CGT concession can Katy access to minimise her tax liability?***

Katy has not held her shares for longer than 15 years, so she does not qualify for the 15-year retirement exemption (even if they were held for 15 years, Katy would not qualify, as she has not retired after her preservation age or due to permanent incapacity). Katy is not interested in the small business rollover concession, as she does not wish to start another business.

Fortunately, Katy is eligible for the following small business concessions:

- Small business 50 per cent reduction – the basic conditions have been satisfied;
- CGT retirement exemption – 100 per cent exemption up to $500,000 lifetime limit (election must be made in writing with the CGT exempt amount paid to a complying superannuation fund, as she is under preservation age).

***How should Katy structure the concessions?***

Katy is also eligible for the 50 per cent individual CGT discount.

Katy will first reduce her $160,000 capital gain by the individual 50 per cent reduction. The remaining capital gain of $80,000 may be further reduced as outlined in Table 6.

Option 1 is a more favourable option, as it results in Katy only having to roll over $40,000 into superannuation (compared to $80,000 under Option 2). If Katy wishes to increase her superannuation balance, she could make a non-concessional contribution into superannuation from part or all of the balance of the $260,000 proceeds from the sale.

*Kate Anderson, National Manager Technical Services, IOOF.*

**Table 5**

| Asset | Value |
|---|---|
| **Active assets** | $1,100,000 |
| **Non active assets** | $200,000 |
| **Total market value** | $1,300,000 |
| *80 per cent test = $1.1/$1.3 = 84.6 per cent* | |

**Table 6**

| CGT concession | Option 1 – Exempt amount | Option 2 – Exempt amount |
|---|---|---|
| **50% active asset reduction** | $40,000 | No election |
| **Retirement exemption** | $40,000. Must be rolled over. | $80,000. Must be rolled over. |
| **Residual capital gain** | Nil | Nil |

## QUESTIONS

**1. Which of the following is not a small business CGT concession?**

a. 15-year exemption.
b. 50 per cent inactive asset exemption.
c. Retirement exemption.
d. Rollover exemption.

**2. Which of the following test is not relevant when determining eligibility for small business CGT concessions?**

a. Net asset value test.
b. Small business entity test.
c. 50 per cent test.
d. Active asset test.

**3. Which of the following is an active asset?**

a. Financial instruments.
b. Assets whose main use is to derive rent.
c. Shares and interests in widely held unit entities, unless held by a CGT concession stakeholder in the widely held entity.
d. Goodwill that is inherently connected with a business that the claimant carries on.

**4. Which of the following assets do individuals disregard when working out the net value of CGT assets?**

a. Assets being used solely for the claimant's personal use and enjoyment.
b. The claimant's own home.
c. Rights to amount payable out of super.
d. All of the above.

# Filling the gaps in insurance cover

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BT

THIS ARTICLE IS WORTH
0.5 CPD HOURS
CRITICAL THINKING

**Includes**

- **Overlap of insurance cover**
- **Topping up Income Protection cover**
- **Reinstatement of linked cover**
- **Gaps in group cover**

It would be a rare occurrence for a client to have absolutely no insurance cover whatsoever. More often than not, they will have a default level of insurance through their corporate super scheme, and/or some retail cover.

However, to achieve comprehensive cover for each client, it is critical that the adviser identifies and fills any gaps. This is done through a full needs analysis, where the adviser either adds to what insurance already exists, or changes the insurance arrangement entirely.

In this article, we discuss the need for holistic cover and look at what clients with partial insurance cover should consider, including:

- whether any overlap exists between insurance products;
- when it is appropriate to top-up cover on other types of policies;
- whether certain features, such as buy back benefits, should be added to existing policies; and
- how to manage existing group arrangements.

## Cover in all circumstances

The differences in purpose and trigger events/definitions within each type of policy, highlight the need for a holistic insurance portfolio for each client.

The value of a comprehensive insurance package becomes increasingly clear as an illness progresses. For example, as explained below, a client suffering from cancer may receive multiple insurance payments, depending on their health status at the time of each claim.

### Payment from a Trauma policy

Trauma (also known as Living) proceeds may be used to pay for medical expenses, provide the flexibility to take time off work, or allow the client to re-evaluate career options by enabling them to make a partial payment on existing debt. A client's inability to work has no bearing on whether they will qualify for a Trauma payment. Instead, a payment may be made on the diagnosis or occurrence of a specified medical event.

For example, upon the diagnosis of cancer, a full Trauma/Living insurance claim may be payable. Many Trauma insurance policies will also allow a payment to be made if the cancer is in its infancy and has not yet spread, such as when a carcinoma is detected. While most insurers will allow a partial payment in this situation, the amount payable could be as low as 5 per cent or as high as 40 per cent of the sum insured. With other policies, the early stage cancer could still qualify for a full claim, dependent on treatment.

Advice professionals should be particularly cognisant of the levels of payment for partial trauma claims, as they need to ensure that any partial claim amount would meet the needs of their client.

### Payment from an Income Protection policy

The purpose of Income Protection (IP) proceeds is to provide for loss of income. If the insured person is unable to work temporarily, they will not qualify for payment of Total and Permanent Disability (TPD) proceeds, but may qualify for payments from an IP policy.

IP insurance provides a monthly benefit that can replace 75-80 per cent of income. While the insurance industry limits the income replacement ratio to 75 per cent, an additional amount may be paid to replace lost superannuation contributions.

There are also IP policies for homemakers that pay for someone to perform normal household duties when the insured is unable to undertake them, or for individuals who are not able to obtain an occupation-based IP policy.

If cancer resulted in the insured person's inability to work, monthly benefits replacing lost income of up to 80 per cent may be payable.

**Payment from a TPD policy**
If cancer caused the insured person to become disabled, so they were permanently unable to work, TPD proceeds may be payable.

The proceeds from TPD cover may be used to extinguish debt, provide for lost future income and pay for mobility aids or home modifications. Occupation-based TPD policy proceeds will generally be paid if the insured person is no longer able to work on a permanent basis.

There are two main types of TPD insurance – 'own occupation' and 'any occupation'. An own occupation TPD policy definition is more generous than an any occupation definition. However, own occupation TPD premiums are approximately 50 per cent more expensive.

Again, there is cover available for homemakers where TPD proceeds are payable if the insured person is permanently unable to perform normal household duties. If clients are unable to obtain occupation-based TPD cover, then general TPD cover may be suitable.

General TPD cover is the base level of cover of which occupation-based TPD cover is built on. Therefore, to qualify under a general TPD policy, the insured person would be severely disabled. This would usually mean the loss of limbs/sight or loss of independent existence (the inability to perform activities of daily living or significant cognitive loss).

**Payment from a Term Life policy**
The purpose of Term Life proceeds may be similar to the purpose of TPD cover, but instead of home modifications and mobility aids, final expenses, such as funeral costs, may be included in the sum insured. Cover may also be for discretionary items, such as family holidays, should the client suffer from a terminal illness and wish to create lasting memories in their final days.

If a client's cancer becomes terminal, or if they die, the full Term Life sum insured would be payable.

## Overlap of insurance cover

There are situations when policies should not overlap, for example, IP policies with concurrent benefit periods. This is because most policies will offset payments from other non-disclosed policies at claim time. If existing policies are disclosed at the underwriting stage, either a lower insured monthly benefit or extended waiting period will be offered, to ensure that benefits across multiple policies received at the same time are not in excess of 75 per cent of pre-disability income.

The inclusion of payments received from other IP policies also extends to policies inside super, where under super law, there are limitations on what can be paid compared to pre-disability income. Total income from all IP policies will count towards the maximum that is payable from super. However, if income linking is available (where all benefits that are not releasable from super are held in a linked policy outside super), any excess can be paid through the non-super policy.

There will be other circumstances when insurance proceeds can be paid concurrently, such as payments from an IP and TPD policy. It's important to read the fine print to ensure that IP payments can continue to be paid, if the client subsequently becomes permanently disabled. Therefore, thought can be given to topping up IP with lump sum cover, allowing for the full replacement of lost future income.

## Topping up IP cover

As IP benefits are generally limited to 75 per cent of income, a client may wish to allow for the remaining 25 per cent of lost income in their lump sum policy. If so, and if they qualify for both payments, 100 per cent of income is covered. This strategy can be used with a Trauma and/or TPD sum insured, however, it is not applicable for Term Life policies, as IP benefits will cease upon death.

As self-owned Trauma or TPD proceeds will not be subject to capital gains tax (nor are they included in assessable income), it is only the net income that needs to be included.

**Example 1**
Jennifer, age 50, owns an IP policy that covers 75 per cent of her gross salary of $100,000 per annum, plus 5 per cent to replace lost super contributions, with a benefit period to age 65. As this is the industry maximum for the insured monthly benefit, she is unable to increase cover under her IP policy. However, she is able to increase the lump sum cover, so that in the event that she qualifies for payments from both her IP policy and TPD/Trauma policy, 100 per cent of her salary is replaced.

Jennifer increases her sums insured to ensure that 100 per cent of net salary is covered for two years under the Trauma policy, and to age 65 under the TPD policy.

This is calculated as follows:

Income tax on $100,000 =

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$26,947[1]. Therefore, net salary = $73,053 per annum.

Income tax on $75,000 = $17,422[1]. Therefore, net salary = $57,578 per annum.

The difference in net income = $73,053 - $57,578 = $15,475 per annum.

Therefore, the Trauma sum insured is increased by $31,414[2] and the TPD sum insured is increased by $287,818[2].

When Jennifer is injured in an accident to the point that she cannot work again, she receives 75 per cent of income from her IP policy and 25 per cent of income from her TPD policy, ensuring that 100 per cent of income is received until age 65.

## Reinstatement of linked cover

Another important consideration is whether buy back benefits should be included in existing TPD or Trauma policies. These will often come at an additional expense, and therefore an assessment should be made on whether the benefit outweighs the cost. The ability to reinstate Term Life cover after a claim has been made on a linked TPD/Trauma policy is important if the purpose of Term Life cover is different to the purpose of TPD/Trauma cover.

**Example 2**

Alex personally owns linked Term Life and TPD cover of $1 million and Trauma cover of $200,000. The sum insured for TPD was formulated to cover debt, lost future income, children's education costs, home modifications and mobility aids. The sum insured for Term Life was formulated to cover debt, children's education costs, lost future income, funeral costs, plus an additional $100,000 for a family holiday in the event that Alex is diagnosed with a terminal illness.

If a TPD payment was made, and the proceeds used as expected, debt would be extinguished, and a lump sum would be set aside for lost future income and education costs. However, where the purpose varies for Term Life cover, i.e. funeral costs and a family holiday in the case of terminal illness, the buy back benefit allows the reinstatement of Term Life cover to pay for these expenses.

Alex's needs may vary as his circumstances change, and therefore, the purpose of cover may change as well. Duplication of purpose that exists at policy inception may no longer exist at the point of claim, and therefore, the value of buy back benefits may become more apparent over time.

In addition, after the TPD claim, Alex has a significantly reduced ability to obtain additional Term Life cover. Buy back benefits provide the best way to recover the Term Life sum insured, without the need for additional loadings or exclusions.

## Gaps in group cover

**Group Term Life and TPD cover**

Group lump sum cover will generally be offered on a unitised basis. While there may be an option to convert to fixed cover, the sum insured may still reduce from a certain age. For example, several group insurance arrangements will reduce fixed TPD cover from age 60, so that cover is reduced to nil by age 65.

If cover is on a unitised basis, it will reduce over time. This can start from as early as age 30, and as a result, there is very little cover in place by age 50. As default group cover is offered en masse, it is difficult to tailor to each client and therefore, may not align with their individual needs.

Of note is the absence of Trauma insurance in group arrangements. This is largely due to group insurance generally being offered within super schemes. Under super law, since 1 July 2014, Trauma insurance is no longer able to be offered within super. However, prior to 1 July 2014, Trauma insurance was rarely, if ever, offered inside super unless the fund was an SMSF.

**Group IP cover**

Many clients have basic IP cover under a group scheme that provides benefits for up to two years. To provide more holistic cover, advisers routinely recommend that a retail IP policy with a two-year waiting period, and longer benefit period, is applied for. This would appear to cover any gaps that exist with the client's current IP insurance arrangement.

However, this structure may present an issue if the client returns to work after the initial claim and the injury/illness is exacerbated. The waiting period of the retail policy may recommence, depending on the level of work undertaken.

With most retail policies, there are a maximum number of days that an insured person can return to work during the waiting period, without restarting it. For example, with BT Protection Plans, a client can work up to five days during a waiting period of 30 days, and up to 10 days during a waiting period of more than 30 days. If they return to work at full capacity for longer than this, the waiting period will recommence.

Thought should be given as to whether adding to a group policy could result in a gap in cover, and whether an alternative solution should be considered.

**Example 3**

Thomas has a group IP policy with a waiting period of 30 days and benefit period of two years. In addition, Thomas has a BT IP policy with a waiting period of two years and benefit period to age 65.

Thomas is disabled for one year due to a Carpal Tunnel

injury and receives income protection payments under his group cover. Thomas then returns to work for one month, but his condition relapses to a point where he must temporarily cease working once again.

Under Thomas's group policy, he can claim on his IP policy for a further year. However, as Thomas has worked more than 10 days during the waiting period for the BT policy, the waiting period will restart. Therefore, this will push out the date when the first monthly benefit can be received from the BT policy (in this case, three years and one month after the initial claim), and a gap in cover is created.

Alternatively, Thomas could have replaced his group policy with a BT policy that has a waiting period of 30 days and benefit period to age 65. When he relapses, the waiting period is waived (due to the recurring disability benefit). Therefore, Thomas can immediately go back on claim.

As highlighted in the example above, it may be preferable to replace group IP cover with a comprehensive retail policy to ensure that gaps in cover are not created.

There are also other reasons why group lump sum or IP cover may be less suitable compared to retail cover. These include blanket exclusions on all pre-existing condition exclusions, terms that may change according to the agreement between the super fund trustee and the insurer, the reduction of cover over time, the lack of features available, and the risk of cover not being renewed at policy anniversary or cancelled at any time.

## Conclusion

There are many things to consider when providing advice to established insurance clients. Firstly, the client's needs must be determined, along with what cover they currently have and if there are any limitations to that cover.

Secondly, an assessment should be made on whether the existing insurance cover meets the client's current needs, is appropriate for their circumstances and what can be done to ensure full cover is provided.

To do this, advisers need a complete understanding of the group and retail insurance offer available in the market today.

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

## Footnotes

1. Assuming 2015/16 PAYG tax rates
2. Indexation of 3% per annum applied. Trauma cover increased by $15,475 (year 1) + $15,475 x 1.03 (year 2) = $31,414

   TPD cover increased by $15,475 (year 1) + $15,475 x 1.03 (year 2) … $15,475 x $1.03^{14}$ (year 15/age 65) = $287,818.

## QUESTIONS

**1. If a client has IP insurance covering 75 per cent of income, a suitable amount of top-up cover included in a Trauma or TPD sum insured is:**

a. 100 per cent of gross income.
b. 75 per cent of net income.
c. 25 per cent of gross income.
d. 25 per cent of net income.

**2. Buy back benefits are advantageous because they can recover the Term Life sum insured:**

a. without additional loadings or exclusions.
b. where cover is for a different purpose to TPD/Trauma cover at inception of the policy.
c. where cover is for a different purpose to TPD/Trauma cover at the time of claim on the Term Life policy.
d. all of the above.

**3. Group insurance may be less suitable compared to retail insurance because:**

a. it is difficult to tailor insurance cover to each individual.
b. cover may be basic or limited and reduce over time.
c. cover, and the terms under which cover is offered, are not guaranteed.
d. all of the above

**4. Additional IP policies may result in:**

a. an increase of the insured monthly benefit being offered, a reduction of the waiting period being offered, and offsetting of benefits to ensure that the amount payable does not exceed policy terms or super law.
b. an increase to the insured monthly benefit being offered, an extension of the waiting period being offered, and offsetting of benefits to ensure that the amount payable does not exceed policy terms or super law.
c. a reduction of the insured monthly benefit being offered, an extension of the waiting period being offered, and offsetting of benefits to ensure that the amount payable does not exceed policy terms or super law.
d. a reduction of the insured monthly benefit being offered, a reduction of the waiting period being offered, and offsetting of benefits to ensure that the amount payable does not exceed policy terms or super law.

# Grand final lunch kicks goals

Footy was centre stage n Melbourne in the lead up to the AFL grand final, with the **Melbourne Chapter** again hosting another spectacular and well attended AFL Grand Final lunch at Etihad Stadium on 28 September.

Over 640 FPA members and their guests attended the lunch and were entertained by some of the AFL's greatest, including father and son duo, Tim and Jobe Watson, Chris Judd and Billy Brownless. There was also an appearance from stand-up comedian, Lehmo.

A raffle and silent auction in support of the Future2 Foundation helped raise $7,510 for disadvantaged young Australians.

Over 640 members and guests attended the AFL Grand Final lunch.

AFL All Star panellists Jobe Watson (left) and Chris Judd (right) with Melbourne Chapter Chair, Julian Place (centre).

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

**NSW**

**Lucas Clayton CFP®**
Woodbury Financial Services

**Mihir Sanjanwala CFP®**
Westpac

**Amy Early CFP®**
Crowe Horwath

**QLD**

**Le (Natalie) Vongpraseuth CFP®**

**VIC**

**Xin Li CFP®**
Finstyle Planning Solutions

**WA**

**Jovan Cvetkoski CFP®**
Knight Financial Advisors

# La Trobe presentation gets thumbs up

The FPA recently presented at La Trobe University's Commerce Student Association panel session on 'Finance related career pathways: What career options do finance students have?'.

The presentation was a great success, with plenty of positive feedback from students. The Career Development Week presentation also helped raise the profile of financial planning as a career choice amongst La Trobe University commerce students.

## Upcoming Chapter events

**6 November**
**Newcastle:** Future2 Foundation Golf Day

**Mackay:** Member Seminar

**9 November**
**Geelong:** Member Lunch

**Sydney:** Member and Client Seminar

**11 November**
**Bendigo:** Member Lunch

**12 November**
**Northern Territory:** Christmas Function

**13 November**
**South East Melbourne:** Member Seminar

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

## Thank you to our Chapter supporters

AIA Australia
Allan Gray
ANZ Wealth
Asteron Life
BlackRock
BOQ Specialist
BT Investment Management
Challenger
Colonial First State
Comminsure
Franklin Templeton
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Hood Sweeney
KeyInvest
IOOF
Invesco
Leveraged Equities
Magellan Asset Management
MAN Investments
MLC
PIMCO
Randstad
RateSetter
Vanguard

# Help for dealing with bereavement

## The Department of Human Services has a range of available services and information to help your clients during times of bereavement.

It's never easy to lose a loved one. Bereavement is an extremely difficult time, and it can also trigger substantial changes in the way you manage your finances. This can be a big challenge for people who haven't been involved in managing the household budget before – many of whom will be visiting a financial planner for the first time.

However, the Department of Human Services has a range of publically available services and information to help your clients during this difficult time.

First and foremost, as with all major life changes, it's important to notify the Department of Human Services about a bereavement quickly, so that we can determine the payments and services that best suit your clients as they transition to the next phase of their life.

If your clients currently receive a payment from the Department, they may be eligible for Bereavement Payment if their partner, child or person they were caring for dies. Your clients may be eligible for Bereavement Allowance if their partner has recently died. This is a short-term income support payment that provides financial support while they adjust to their changed circumstances.

If your clients are currently receiving Carer Payment, Wife Pension, Partner Allowance or Parenting Payment, they may continue to receive these payments for 14 weeks following the death. This will allow them a time of financial stability while they seek other support.

In the weeks following the loss of a loved one, your clients will also need to notify other organisations and government agencies about the situation. The Department of Human Services can help here as well, by providing a checklist of people and organisations your clients may need to contact when someone dies. This checklist is available online.

It's also important for your clients to focus on their own health following the death of a partner. Feelings of sadness and loneliness can be natural parts of dealing with loss, and the Department can help. We have social workers on staff to offer support and can also put people in touch with formal counselling through organisations like the National Association for Loss and Grief or Lifeline.

A recent study found that 75 per cent of Australians have not had 'end of life' discussions with their loved ones. This means that three-quarters of the time, families and loved ones are left with at least some questions following a death. While it's important to make a will, these conversations can go a long way to ensure that end of life wishes are respected.

Another important conversation for your clients to have with loved ones involves their wishes on organ donation. Australia has an opt-in system for organ donation, which means that the consent of loved ones will be needed to donate organs when someone passes away. Your clients can register their wishes on organ donation, either for or against, on the Australian Organ Donor Register at humanservices.gov.au/organdonor

The Department has set up some great web pages as resources for people dealing with bereavement. The best starting point when looking for information before or after a death is humanservices.gov.au/bereavement.

For information about the Financial Information Service, including dates for upcoming public seminars or to book a free personal appointment, visit humanservices.gov.au/fis. Likewise, if you would like to speak to a social worker or learn more about the department's Social Work Service, visit humanservices.gov.au/socialwork

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**Chief Executive Officer**
Mark Rantall CFP®

**Directors**
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Matthew Brown CFP® (QLD)
Bruce Foy (NSW)
Julie Matheson CFP® (WA)
Delma Newton CFP® (QLD)
Philip Pledge (SA)

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