PP243096/00011

OFFICIAL PUBLICATION
OF THE FINANCIAL PLANNING
ASSOCIATION OF AUSTRALIA

Financial Planning

Volume 29 Issue 1

February 2017
$15.00

The pursuit of excellence

Tony Sandercock CFP®
and transforming
retirement thinking

THIS ISSUE

MONEY & LIFE / 2016 FPA AWARD WINNERS / ROUNDTABLE: GENDER DIVERSITY
RETAIN AND RENT STRATEGY / LRBAS IN SMSF PROPERTY DEVELOPMENTS

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

Contents

February 2017

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

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

General Manager: Zeina Khodr
T: 02 9947 2413
E: zeina.khodr@colloquial.com

Level 7, 235 Pyrmont Street
Pyrmont NSW 2009
T: +61 2 9947 2222
www.colloquial.com

Managing Editor: Jayson Forrest
M: +61 416 039 467
E: fpmag@colloquial.com

Advertising: Suma Donnelly
M: +61 404 118 729
E: suma.donnelly@colloquial.com

Colloquial.
A J.Walter Thompson unit
www.colloquial.com
© Colloquial 2016

MIX Paper from responsible sources FSC® C015306

cab CIRCULATIONS AUDIT BOARD
Average Net Distribution Period ending Mar '16
11,265

Photography/Images: Adobe Stock

Shifting gears

The New Year is always a great time to re-charge the batteries and get ready for another chapter.

For me personally, closing out 2016 with the FPA Professionals Congress in Perth was the perfect way to celebrate what we have achieved to date as a profession, and re-focus on the work we have yet to do.

We have every reason to feel excited about the future, because it looks bright. Change is daunting for all of us, but change is a necessary part of our evolution as a profession. There is no doubt we are on the cusp of something great.

We are about to see the implementation of reform that will radically change what new financial planners need to do to practise in Australia. We are also going to see soon the implementation in legislation of the enshrinement of the term financial planner/adviser.

The significance of these changes cannot be underestimated, and they are the result of many people working together.

> To ensure our profession is strong and sustainable, we must encourage the next generation into our profession...

New FPA Code

You've hopefully heard that
In Perth I was delighted to announce that ASIC has approved an FPA Professional Ongoing Fees Code, which will commence from 1 July. The Code will provide FPA members with an alternative to the opt-in laws when engaging clients in an ongoing fee arrangement.

This is the first-ever Code approved by ASIC, and another major step forward for the financial planning profession. We will be releasing further details soon.

In Perth, I also had the honour of announcing the winners of the 2016 FPA Awards. With two additional categories this year, we were able to broaden the recognition to paraplanners and FPA Professional Practice owners. You can read about the well-deserved award winners starting on page 14.

Such awards are a great way of communicating the high standards of FPA members to consumers. Raising consumer awareness and trust is very dear to my heart and will continue to be a big focus, as will growing the number of students choosing financial planning as their career.

To ensure our profession is strong and sustainable, we must encourage the next generation into our profession and grow the number of financial planners in this country.

Money & Life

Growing the number of Australians accessing financial advice is possibly the biggest challenge we face as a profession.

To do this, we need to dispel the myths and misconceptions about financial planners, and raise the level of trust in financial planning.

This month we are launching Money & Life, an online destination dedicated to helping Australians improve their financial wellbeing.

The site will provide readers with relatable and practical content to empower them with the confidence to improve their circumstances, and ultimately, seek professional financial advice.

We'll be calling on the expertise within the FPA membership to contribute to the site over the coming months, so stay tuned.

I encourage you to share the Money & Life content with your clients and social media network, to help us spread the word.

Read more about Money & Life on pages 8-9.

Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

T.RowePrice®
INVEST WITH CONFIDENCE

CONFIDENCE IS KNOWING WE GO FURTHER TO SELECT THE BEST OPPORTUNITIES

GLOBAL EQUITY FUND

The T. Rowe Price Global Equity Fund reaches parts of the world that others don't. Powered by a global research platform comprising over 200 research professionals, the fund invests in stocks across 30 countries* in developed, emerging and frontier markets, gathering the world's most attractive investment opportunities in one fund, for your benefit. The Global Equity Fund is now also being offered in a currency hedged option.

Discover a truly global world of opportunity.
www.troweprice.com.au/ge - (02) 8667 5700

* All data as of 31 August 2016.

2016-GL-4903

ASIC approves professional Code

In what is a significant milestone for the financial planning profession, ASIC has approved the FPA Professional Ongoing Fees Code, which provides FPA practitioner members with an alternative to the opt-in laws when engaging clients in an ongoing fee arrangement.

The Code, which is the first ever approved by the regulator, will be available from 1 July 2017. The Code provides practitioners with the opportunity to implement an ongoing fee arrangement that is more practical and appropriate for their clients and their business, while maintaining appropriate levels of protection for clients.

"To gain ASIC approval, codes must adopt higher standards than required by law, or in the case of an opt-in code, replace the need for compliance with a legal requirement, and represent a benefit to consumers," FPA chief executive officer, Dante De Gori said.

The FPA has developed monitoring arrangements that will hold practitioners accountable to the Code. These arrangements will be overseen by an independent code administrator.

"The FPA Professional Ongoing Fees Code will enable FPA member businesses to apply the 'fair engagement' principle to ongoing fee arrangements with their clients," De Gori said.

"The Code supports ongoing fee arrangements which are simple, transparent and fair. That's good for consumers and it's good for business."

Future2 awards $147K in grants

The Future2 Foundation, the philanthropic arm of the FPA, has announced over $147,000 in community grants for 2016. The 'Make the Difference! Grants' are awarded to not-for-profit organisations with programs developed for socially and financially disadvantaged young Australians.

According to Future2 chair Matthew Rowe CFP®, the 2016 grants are an increase of almost 30 per cent on the previous year.

The recipients were selected from 91 applications, which were all endorsed by a practising FPA member.

Of the $147,000 awarded in grants, $70,000 was for seven new single year grants of $10,000 each, with the remainder being a continuation of multi-year grants over three years.

The seven first-time Future2 Make the Difference! Grant recipients are:

- Multicultural Youth South Australia, Adelaide, SA
- Kimberley Group Training, Kununurra, WA
- West Moonah Community House, West Moonah, TAS
- EACH - Headspace, Port Macquarie, NSW
- BestLife, Cairndale, QLD
- The Carevan Foundation, Albury, NSW
- Warringarri Media Aboriginal Corporation, Kununurra, WA

Full details of each grant recipient is at www.future2foundation.org.au

Grant applications for this year open in April. For more information, go to the Future2 website.

The FPA congratulates the following members

who have been admitted as CERTIFIED FINANCIAL PLANNER® practitioners.

ACT

Gianna Salvestro CFP®
First State Super Financial Services

Johannes Vermeulen CFP®
Avant Mutual Group

NSW

Douglas Adie CFP®
BT Financial Group

Anthony Pears CFP®
Integra Financial Services

Belinda Tink CFP®
Foundation Wealth Planners

Paul Larkin CFP®
Bluegum Wealth

Roxanne Gorman CFP®
Commonwealth Private

Gavin Murray CFP®
Hub Wealth Solutions

Timothy Ching CFP®
Riviera Wealth Partners

Silas DeBolt CFP®
BW Financial Advice

Mohamed Said CFP®
Avante Financial Services

Belinda Lynch CFP®
State Super Financial Services

Shaun Walsh CFP®
Crowe Horwath Financial Advice

Jonathan Winfield CFP®
AMP Advice

Cara Sloshberg CFP®
StatePlus

Torrance Kassabian CFP®
St George Bank

Andrew Lim CFP®
HSBC Bank Australia

Jessica Brizuela CFP®
Centric Wealth Advisers

Michelle Higgerson CFP®
PKF Wealth

Danae Lacey CFP®
Level One Financial Planning

Iain Davidson CFP®
Lipman Burgon & Partners

Melissa Balacharige CFP®
Shadforth Financial Group

Ryan Lisson CFP®
Equity Trustees

Anthony Davison CFP®
Henderson Maxwell

Thomas Jeffries CFP®
Minchin Moore Private Wealth

Bianca Cannon CFP®
Neilson & Associates

Jonathan Pohl CFP®
Evans Rossouw & Young Wealth Management

Michael Rose CFP®
Elston

QLD

Michael Ryan CFP®
BDO Private Wealth Advisers

Justin Shipp CFP®
Elston

Jason Fleming CFP®
Fleming Financial Planning

Paul Bronson CFP®
Bronson Financial Services

Jonathan McCullagh CFP®
NAB Financial Planning

Joshua Dalton CFP®
Dalton Financial Partners

Arash Zamansani CFP®
Fleming Financial Planning

Anna Johnston CFP®
Women on Wealth

Luke Muir CFP®
LGIA Super

Jessie Hinds CFP®
BDO Private Wealth Advisers

Mary Kelly CFP®
MaKe Financial Decisions

Benjamin Marshall CFP®
Roskow Independent Advisory

Angelina Wu CFP®
UniSuper Management

Nicole Robinson CFP®
Zest Financial Solutions

Simon Willis CFP®
Commonwealth Financial Planning

Annie Dawson CFP®
Arrive Wealth Management

SA

Mark Haddad CFP®
Perpetual Trustee Company

Isaac Kalleske CFP®
Hood Sweeney Securities

Michelle Secomb CFP®
360 Private Wealth By Design

Andrew Marsh CFP®
360 Private Wealth By Design

Surinder Singh CFP®
Frances Magill Financial Strategist

TAS

Leanne Stokes CFP®
FM Financial

Samuel Baker CFP®
Shadforth Financial Group

VIC

Samantha Sun CFP®
Financial Services Partners

Peter Jackson CFP®
Element Financial Solutions

Cameron Obliubek CFP®
Bridges Financial Services

Nicole Holm CFP®
Sovereign Wealth Solutions

Kevin Centra CFP®
Shadforth Financial Group

Giovanni Manserra CFP® LRS®
Hillross Financial Services

Diana Rogers CFP®
Flack Advisory Services

Emma Roache CFP®
Silvan Ridge Financial Services

Marek Habsuda CFP®
Shadforth Financial Group

Xiao Jie (Sarah) Wang CFP®
NAB Financial Planning

Tin Nguyen CFP®
Ironplan Financial

Gregg Winder CFP®
BT Advice

Matthew Torney CFP®
Muirfield Financial Services

Michael Anderson CFP®
Ausure Echuca

Jason Calleja CFP®
FMD Financial

Tudor Cosma CFP®
Shadforth Financial Group

Juliet Callaghan CFP®
Semaphore Private

Steve Zarifopoulos CFP®
KPMG

Ryan O'Dwyer CFP®
Equip Financial Planning

Brendan Smith CFP®
First Financial

Mark Porter CFP®
Shadforth Financial Group

John Versace CFP®
Apt Wealth Partners

Jordan Andrews CFP®
BT Financial Group

Ge Sang CFP®
NAB Financial Planning

Kanhai Desai CFP®
Shadforth Financial Group

Ryan Wadsworth CFP®
Shadforth Financial Group

Daniel Gumley CFP®
Dixon Advisory

Kyle Brumley CFP®
Morrows Private Wealth

Hannah Arnold CFP®
Strategem Investment Services

Calan Choke CFP®
ANZ Financial Planning

WA

Sarit Shah CFP®
Enlighten Financial Services

John William Weall CFP®
Weall Financial

Julia Schortinghuis CFP®
Lighthouse Capital

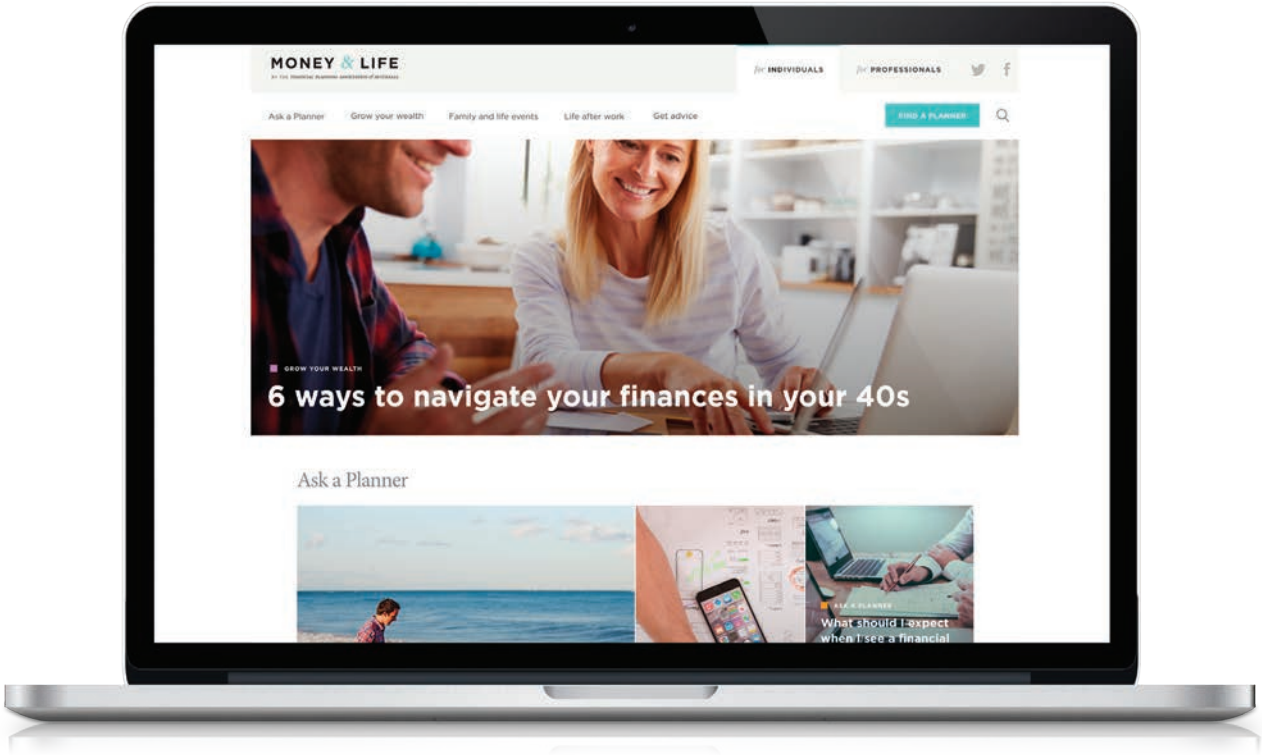
Salvatore Pizzata CFP®
Resolution Wealth Partners

Aaron Washfold CFP®
Washfold Financial Services

Jacques Malan CFP®
Mercer Financial Advice (Australia)

MONEY & LIFE
Raising consumer awareness

Launching soon: A new online destination to raise greater consumer awareness of financial planning.



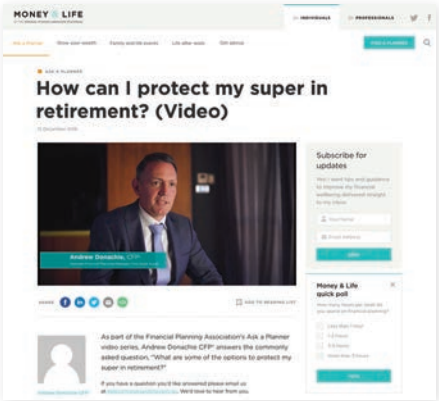
This month, the FPA launches Money & Life, a new website incorporating engaging digital content designed to help Australians improve their financial wellbeing. It also includes a 'professionals' section for FPA members.

Money & Life forms part of the FPA's strategic priorities, outlined in its LASER 2020 vision for the next four years, to raise greater consumer awareness of the benefits of good advice, while rebuilding trust and confidence in financial planners. The new digital destination site will be mobile responsive and includes consumer-friendly content and resources, plus real life stories from everyday Australians.

"I believe there is a large misconception about financial planning, and what financial planners actually do. So, there is a real opportunity to rectify that and debunk these myths, while clearly demonstrating the benefits of good financial advice," FPA chief executive officer, Dante De Gori says.

De Gori believes that the new Money & Life initiative, which will showcase feel good financial planning stories, is one of the best ways to capture the hearts and minds of Australians.

Money & Life will offer regularly updated content that empowers and educates consumers with meaningful information and practical tips, so they feel more confident about their own financial future. The site will also feature an 'Ask a planner' section giving consumers the opportunity to have their questions answered by an FPA member.



BENEFITS FOR FPA MEMBERS

- Shareable consumer content for email newsletters and social media
- CPD accredited articles
- Ability to create reading lists
- Opportunity to become a contributor

Money & Life will also give consumers the opportunity to sign up to receive regular email newsletters, to enable them to build their financial literacy, and eventually take the next step and find an FPA member through the FPA's Find a Planner tool, which already generates over 70,000 searches a year.

FPA members will also have the opportunity to submit content for the site, thereby raising their profile as financial planning experts.

"The financial planning landscape is complex and challenging for many Australians to navigate," De Gori says.

"Money & Life will provide readers with easy to understand, relatable information to help them take control of their financial future. We see this as a first step for those not yet ready to seek professional financial advice.

"Ultimately, we expect Money & Life will help grow the demand for financial planning in Australia."

The Money & Life website will also include a professionals' section for FPA members. By using their FPA membership details, members can log onto the site to access Continuing Professional Development accredited articles, as well as content on strategy, practice management and career development.

The Money & Life website will also help FPA members engage with their online communities and connect with consumers through shareable content.

But as much as the FPA's LASER 2020 initiative is about connecting with consumers and the profession, it's also about connecting with future financial planners and winning over the next generation.

"There is no doubt that financial planning is of national importance. More Australians than ever before need financial advice, so we need to do a better job of connecting with them, while also connecting with students to ensure the profession has enough planners in the years ahead. And that's where Money & Life comes in," De Gori says.

"It's about reconnecting and re-engaging with Australians, so I recommend all members check out the website and introduce it to their clients."

BECOME A CONTRIBUTOR

The Money & Life team is keen to hear from FPA members who would like to contribute articles. If you're interested, please get in touch by emailing **editor@moneyandlife.com.au**

Ready for a year of change

Q: Looking at the year ahead, what do you think will be the big issues affecting you (as a financial planner) and your clients in 2017?

Daryl La'Brooy CFP®

Financial Adviser, Hillross Financial Services
Licensee: Hillross Financial Services

It appears the world economy may be impacted by two key political events which have occurred in 2016, namely Brexit and the election of the new US president. Notably, the outcome of the impending French and German elections in 2017 will also have an impact.

The subdued economic recovery since 2009 has led to political backlash in many parts of the developed world. This voter displeasure has produced volatility on world share markets. It has also led to less certainty, with investors generally becoming more cautious when events are less predictable.

So, in some respects, 2017 looks similar to that which we experienced in 2016, with subdued economic growth and low investment returns, but with even more political uncertainty.

In the face of this heightened uncertainty, the need for clients to hold an emergency cash reserve is a must. It's also advisable to ensure they are in an appropriate risk profile, just in case further volatility occurs, and that client investments remain sound.

Many of my clients are receiving part Age Pensions and after the 2017 changes, there should be some certainty about their continuity until the next Federal Election.

Some clients are fortunate enough to be purely living off the income from their investments and if these clients are able to stand a potential higher rate of volatility in relation to growth assets, they should then be able to get through 2017 in good shape, as share dividends are not forecast to fall during the next calendar year.

For retired clients, the certainty of a constant income flow is always a major issue, and if they are drawing on capital, decent returns have been a concern over the last decade. A rise in returns from asset classes over the next 12 months does not appear to be on the cards.

For clients who are working and continuing in their jobs, saving money for retirement and reducing debts will be the key issues they need to address in 2017, as it was in 2016.

Wayne Leggett CFP®

Director, Paramount Financial Services Group
Licensee: Fortnum Financial Advisers

Starting from the first day of the New Year, with the reduction of the 'taper rate' for the Age Pension assets test, to the changes to super rules expected to take effect from 1 July, there are likely to be even more issues than most years for us to contend with.

From the perspective of a client, their issues this year will be no different to those I have encountered in every one of my 37 years as an adviser. These include: how to protect myself and my family from financial stress; how to best manage and clear my debts; and how to save for a comfortable retirement.

Irrespective of the short-term implications of legislative change, market forces or political factors, such as the recent US Presidential election, the challenges facing our clients, and our role in assisting them in meeting these challenges, will most likely continue to be as it has always been.

And would we want it any other way?

Charles Badenach CFP®

Principal and Private Client Adviser, Main Street Financial Solutions
Licensee: Fitzpatricks Private Wealth

The big issues in 2017 are likely to be:

- **The Trump Factor:** Markets dislike uncertainty and Donald Trump's election as President of the United States risks ushering in a period of policy uncertainty. Some of Trump's stimulatory policies, such as personal and corporate tax cuts and increases in defence spending, could boost markets but longer term may have budgetary implications.

- **Rise of fintech:** We are now seeing the evolution of niche companies providing add-on services, enabling us all to work smarter, not harder. Some examples that are likely to be prominent in 2017 for planners are Acorns (www.acorns.au), adviser intelligence (www.adviserintelligence.com.au), DomaCom (www.domacom.au), and Suite Box (www.suitebox.com). For clients, the key ones are likely to be Self Wealth (www.selfwealth.com.au), Stockspot (www.stockspot.com.au) and Society One (www.societyone.com.au).

- **Implementation of super changes:** With the Government constantly changing the goal posts on super, it has lost the trust of many Australians and it will be a challenge to regain this in the near term. Whilst it has slightly adjusted a number of the proposed Budget changes, the feeling of distrust remains.

- **Institutional adjustments:** The ANZ's announcement that it is considering selling key parts of its wealth management arm could potentially be the start of a range of structural changes in the industry if the other three banks follow this lead.

- **Finalisation of adviser education standards:** Education and CPD are the foundations of any profession. Many in the profession would like these finalised, so we can all move on. Hopefully 2017 is the year!

Tim McLaughlan AFP®

Strategy Adviser, Elston
Licensee: EP Financial Services

Given the number of changes to the superannuation system, the NCC cap backflips and the time it has taken to legislate following the Federal election, advisers and clients are looking forward to a time when new rules are set and financial plans can be made or adjusted.

The first six months of 2017 represent an opportunity for advisers to assist clients with their superannuation.

As the world adjusts to the 45th President of the United States, Donald Trump, advisers will need to help clients navigate through the unpredictable times that may follow.

Closer to home, in its most recent Statement on Monetary Policy, the RBA left rates unchanged, with some analysts anticipating further cuts in 2017. This may mean that the current environment of low yields on defensive assets will continue to be an issue throughout 2017.

Because retirees are generating such low rates of return from defensive asset classes, some are being forced to take on higher levels of investment risk, in an effort to maintain an acceptable retirement income, without cannibalising their retirement capital.

For all of these reasons, 2017 is likely to be a year of heightened volatility and uncertainty.

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

Three pillars of growth

The financial planning community enthusiastically embraced the 'Future Ready' theme of last November's FPA Professionals Congress, with over 1,000 delegates travelling to Perth for this annual event. Jayson Forrest reviews some of the highlights from Congress and talks to the six FPA Award recipients.

In officially opening the FPA Professionals Congress on 23 November 2016, FPA chief executive officer, Dante De Gori said the theme of the Congress – Future Ready – meant growth, which means growing the next generation of planners. He revealed that the future growth of the profession will be built on three pillars: student engagement, professionalism and consumer awareness.

As part of this future growth, the FPA is working closely with the Financial Planning Education Council in terms of accrediting financial planning courses offered by tertiary institutions, with currently 14 universities approved to offer financial planning degrees.

Presently, the FPA is actively engaged with 25 universities, with this engagement rolling over into Congress, with 17 of the FPA Chapters each sponsoring, for the first time, one student studying financial planning to the 2016 Congress.

The second pillar of the profession's future growth, 'professionalism', also figured strongly in De Gori's opening address to delegates. He used Congress to announce that the FPA had obtained from ASIC its first ever Code of Approval for the FPA's Professional Ongoing Fees Code.

"From July 1 2017, our members will have the option of signing up to a new section of the FPA's code covering opt-in, which will remove them from the need to comply with the legislative version of opt-in contained in FoFA laws," De Gori said. "This is the first ever code approved by ASIC and it's a significant milestone for the profession."

In line with the FPA's goal to increase consumer awareness of financial planning, De Gori also announced a new online website, called Money & Life.

The online destination incorporates engaging and interactive digital and social media content, designed to help Australians improve their financial wellbeing. It also includes a professionals' section for FPA members.

The new website is mobile responsive and not only includes consumer-friendly content and resources, but real life stories from everyday Australians.

"I believe there is a large misconception about financial planning, and what financial planners actually do," De Gori said. "So, there is a real opportunity to rectify that and debunk these myths, while clearly demonstrating the benefits of good financial advice."

De Gori believed the new Money & Life initiative, which uses consumers as advocates of financial planning, is one of the best ways to convert the hearts and minds of Australians.

Other highlights of Congress included 24 workshop sessions, a sold out Future2 Gala Dinner and a record number of people attending the Women in Financial Planning breakfast, which featured guest speaker, Catherine McGregor.

The FPA Professionals Congress also showcased an impressive line-up of plenary speakers, including Tracey Holmes, Anna Meares, Ange Postecoglou, Andrew Denton, Richard De Crespigny and Dr Michael Holt.

The opening day of Congress featured the Professional Practice Workshop, where approximately 300 practitioners shared best practice ideas and strategies, while a special workshop for paraplanners attracted about 100 professionals.

Julie Matheson CFP®, who stepped down from the FPA Board at the Congress, was presented with an FPA Distinguished Service Award for her 10 years service to the FPA Board, while Corinna Dieters was also presented with an award for her work with the Future2 Foundation.

And the Future2 Foundation announced $147,000 in Future2 grants for the coming year, due to the dedicated fundraising efforts of the FPA community. Incredibly, $110,000 was raised by cyclists and sponsors participating in the 2016 Future2 Wheel Classic. Cyclist Phillip Win was presented with the Jack Griffin Memorial Award for having raised the highest individual amount. The Future2 grants go to not-for-profit organisations with programs in place to assist socially and financially disadvantaged young Australians.

The FPA also recognised the outstanding achievements of its members with a series of FPA Awards announced at Congress, including two new awards: FPA Professional Practice of the Year and FPA Paraplanner of the Year. To read more about the six award recipients, refer to pages 14-25.

The 2017 FPA Professionals Congress will take place in Hobart from 22-24 November.

The pursuit of excellence

Judges awarded Tony Sandercock CFP® the FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award for his mission to transform the way people plan for retirement.

Having been a practitioner for 30 years, there's not too much Tony Sandercock CFP® hasn't seen or doesn't know about financial planning. But one thing that surprised the Sunshine Coast owner of wetalkmoney, is actually winning the prestigious FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award for 2016, in what was the first awards nomination he has ever participated in.

And the excitement is clearly evident when you talk to Tony.

"There are many people doing really good things in our profession. So, to be recognised in this way is a huge honour. I've never actually participated in anything like this before, so it's as if I've climbed to the top of the tree," Tony says. "In terms of peer recognition, it just doesn't get any better than this."

The FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award is presented to a CFP practitioner who embodies the highest professional standards and has delivered best practice which has led to superior client outcomes.

The award also acknowledges Tony's mission to 'transform the way people plan for retirement', his dedication to ongoing learning, and the mentorship of those around him.

Commenting on the award, FPA chief executive officer, Dante De Gori said: "Tony is passionate about motivating clients, helping them set meaningful goals and simplifying complex decisions. His client testimonials were outstanding and a testament to his work."

Tony admits to having surprised himself by entering the FPA Awards, but after 30 years practising, he thought it was "about time" he put himself and his practice under the scrutiny of his peers.

"Our business model has been evolving, so I wanted to put it to the test," he says.

But in doing so, Tony discovered just how valuable the process of entering the awards actually were for him and his practice.

"I would encourage all planners to get involved in these awards," he says, "because the nomination and application process asks good questions about the service you provide, and how you deliver and communicate that.

"It really forces you to jump outside your business and analyse what you are doing, and then articulate that properly. So, irrespective of the result, I actually found the whole process of self-examination quite valuable."

As the winner of the top gong for CFP professionals, Tony sees great value in being a CFP professional.

"I've been in the profession for a while and the CFP designation was something I always aspired to," he says. "I felt then, as I do now, that it's the designation you need to promote yourself as being the best in the profession."

And such is Tony's regard for the CERTIFIED FINANCIAL PLANNER® designation that it has become part of his personal and professional brand.

Name: Tony Sandercock CFP®

Age: 53
Educational qualifications: Masters of Financial Planning
Position: Owner and Financial Planner
Practice: wetalkmoney
Licensee: AspectFP Dealer Services
Years as a financial planner: 30 years
CFP® designation: March 1998

"I'm not Tony Sandercock, I'm Tony Sandercock CFP®," he says with pride. "And that's how I promote myself."

And what of the designation's importance for the profession?

"Well, in terms of the profession, if you look at what a client wants and is looking for, they are looking for planners with expertise, credibility and who are ethical, with a commitment to ongoing learning. And I think that's what the CFP designation is all about. So, I would encourage any planner to become a CFP professional."

As a CFP professional for almost 20 years, Tony has confronted most challenges the profession has thrown him, but concedes a particular challenge he still faces with his clients is getting them to actually "want what they need". And that means having challenging discussions with them.

"For example, if it's about talking to your client about their spending and the need to spend less and save more, you're always going to hear plenty of objections and excuses. But as a planner, you need to have these challenging discussions with your clients. And really, as their financial coach, it's something they expect from you, no matter how difficult the conversation."

And what advice does he have for any aspiring CFP professional?

Top of his list is ensuring that the client always comes first.

"By making the client number one, everything else just has a remarkable way of falling into place," Tony says. "If I was a young kid starting out now, I would focus on what it is my client needs, and then create an environment where I can deliver that."

He also feels the profession spends too much time on providing solutions, when it should be focusing on the needs of the client.

"As a profession, we tend to spend a lot of time on solutions, when I actually think the key to the client-adviser relationship is actually 'the need'. We love to get to the solution quickly to show clients how smart we are, but in the process of doing so, we sometimes have a superficial understanding of that need.

"I think planners should be spending just as much time on 'the need', as they do on the solutions. Because in the long-term, that's what is going to maintain your relationship. In the end, solutions are commoditised."

And Tony's last tip to any aspiring CFP professional is to ignore the things you can't control.

"This includes the ups and downs in the market and noise from the media. Ignore these things and focus on the things you can control, such as helping clients set meaningful goals, the strategy to get there, managing the risks along the way, and then to encourage your clients to remain disciplined," he says. "It's all part of what being a good financial planner is all about."

And for Tony, that's part of his never-ending pursuit of excellence.

The best you can be

As the 2016 Financial Planner AFP® of the Year Award winner, Cody Harmon attributes his success to resilience and determination.

Name: Cody Harmon

Age: 25
Educational qualifications: BEconFin, DFP
Position: Financial Adviser
Practice: Meridian Wealth Management
Licensee: Meridian Wealth Management
Years as a financial planner: 4 years

Ecstatic. That was Cody Harmon's reaction to being named the 2016 Financial Planner AFP® of the Year Award winner. And why wouldn't he be, as this award is recognition by his peers and clients that he is heading in the right direction as a planner.

"Winning this award has really helped affirm that I'm on the right track as a professional," Cody says. "And I know that good things will continue to happen if I keep on being resilient, determined and the best person I can be."

Resilience and determination are qualities Cody has in spades. Having grown up in a family that had never received financial advice, it gave the 25-year-old a deeper appreciation of the benefits of what a good financial plan can bring to someone's life, which also helped steer him towards a career in financial planning.

The Financial Planner AFP® of the Year Award was conceived to encourage and recognise the achievements of AFP practitioners who are committed to excellence and professional development, and who adhere to the FPA Code of Professional Practice.

Cody's reasons for entering the awards were not only self-belief but a desire to benchmark himself against other financial planning professionals.

"As a profession, we are committed to ensuring that our clients achieve both their lifestyle and financial goals, and their objectives. I too wanted to ensure that I, as a professional, was on the right track, especially considering all the changes that are currently occurring within our profession," he says.

"For me, entering these awards wasn't just about competing with others. I knew I was doing the right thing professionally, but I was interested to see how I stood against my peers nationwide with the quality of advice I was providing."

When talking to Cody, one thing that constantly impresses is not only his enthusiasm but his forward-thinking. Never one to just live in the moment, he is always looking ahead. This includes his vocation and how he sees that evolving over the next 5-10 years.

"I see myself developing as a planner by ensuring I achieve every goal I set for myself, which includes eventually becoming a CFP® professional," he says.

Cody is currently studying his Masters of Financial Planning at Griffith University, which once completed, will provide him with exemptions for the CFP® Certification Program.

"Improving my own education and professional standards is definitely part of my career progression," he says. "I should have my CFP designation by the end of 2017. Study is a big thing for me – both now and ongoing."

And professionally, Cody is keen to help change the way advice is currently provided and perceived in this country.

"In the past, there has been a lot of focus on product and costs, but I want to help change that. If you focus on strategy and critical thinking to increase a client's net-worth, then that will have a positive lasting impact on the financial planning profession. I want to help drive that message," he says.

"If we're going to be a trusted profession, we've got to continue to evolve our skill sets and advise more around increasing our clients' net-worth towards achieving their goals, as opposed to focusing on product penetration."

As part of his winning formula, Cody also advises any aspiring planners wanting to join the profession to seek out and network with as many respected planners as they can.

"Ask them for their insights and advice," he says. "If you have enough coffees with them, I can almost guarantee that you will get some type of work experience. That's what I did when I first started out and I haven't looked back. You have to be proactive and do whatever you can to make it happen."

And what about mentors?

"Absolutely," he says. "Being part of a profession means sharing ideas and

Don't let anyone hold you back or put you in a box with 'old school' thinking, saying you have to do this or that, before you can become a planner.

experiences in a collegiate environment. And having a good mentor is invaluable when you're starting out. Learn from other people's mistakes and achievements, and focus on becoming the best you can be."

As a mentor to an RMIT student, who recently received an internship overseas, Cody hasn't forgotten to give back to the profession that has so generously given to him.

"Mentoring can be just as valuable to the mentor as it is for the mentee," he adds. "It helps in my continued development as a professional, as teaching re-enforces and assists the retention of knowledge."

And any final advice for those who are a bit younger?

"Don't let anyone hold you back or put you in a box with 'old school' thinking, saying you have to do this or that, before you can become a planner," he says.

"To take out this award at the age of 25, I wanted to prove to the next generation of financial planners that you can get to the top extremely quickly if you have a real thirst for knowledge and improvement."

Life is for living

Corporatising its advice without losing its identity has worked a treat for ipac Western Australia, which was named the inaugural winner of the FPA Professional Practice of the Year Award.

There was no concealing Patrick Canion's excitement when ipac Western Australia was named the inaugural FPA Professional Practice of the Year, taking out this prestigious award at the 2016 FPA Professionals Congress.

In accepting the award, Patrick, a CFP® practitioner and chief executive officer of ipac Western Australia, says the award is tremendous acknowledgment for the team and processes at ipac Western Australia.

"The award is recognition of the combined effort of the entire team," he says. "Each day for the last 18 years, we have strived to be better at what we do, so to get this recognition is something nobody can ever take away from us."

Patrick acknowledges that winning the FPA Professional Practice of the Year Award is a huge morale boost for his practice.

"Financial planning is a lonely business. You think you're good but you don't know how good you are until you put yourself to the test against your peers. Now we know we're good, and that's an enormous shot in the arm for the entire team."

As much as there is skill in being a good financial planner, there is also skill in building a successful financial planning practice, which was a core component of the criteria judges were looking for when deciding the winner of this award.

In fact, in making their decision, the judges hailed the Perth-based practice as an "entrepreneurial leader" in the provision of financial advice, technology and its approach to marketing and events. The practice was also commended for its commitment to staff development, clarity and community involvement.

"It was fantastic that the FPA Awards finally recognised the collegiate effort of planners and staff working together in a planning practice for great client outcomes," Patrick says.

He concedes that signing up to the FPA Professional Practice brand six years ago was a great decision, as today, the brand clearly stands for a planning practice's pledge of higher professional standards.

"As the FPA Professional Practice brand has developed, we have come to see it as a way that all our practitioners can stand together for a higher ideal of professionalism across our business," Patrick says. "The brand is a seal of quality that extends beyond any one individual."

And it's this seal of quality that also underpins ipac Western Australia's philosophy, which is emblazoned across its door – 'Life is for living'.

It's a philosophy that has helped the practice to differentiate itself from many of its competitors.

"When it comes to our clients, we really make a point of planning for the person 'they are', and not just the money 'they have'. That means we match clients with advisers based on their personality and not just their financial planning needs," Patrick says.

"We're about building relationships. We don't care if you are a retiree with $1 million to invest or $10,000. If you need help, we want to find a way of helping you.

"So, you might be in your early 20s and just want to know how to start a savings plan. That's okay, we'll help you. We know that if we can help someone out and build a relationship, they won't forget that, and in five or 10 years time, they'll be back. It's a philosophy that is working for our practice."

But like any planning practice, ipac Western Australia has its challenges.

Top of the list for Patrick and his team is staying on top of regulations and compliance. Another challenge is finding ways of helping clients that is compliant but profitable, "so we can honour those promises in the years to come".

But not surprisingly, it's business profitability that Patrick finds particularly challenging.

"The margin pressure on businesses is phenomenal," he says. "We're seeing more demand than ever for financial advice but the expectation from the marketplace of what it costs to provide that advice is less than it's ever been.

"In 1998, our initial establishment fee, no matter how much money you had, was $4,000. That's for a full plan and

Professional Practice Profile

Practice: ipac Western Australia
Established: 1986 (rebranded 2011)
Licensee: Charter Financial Planning
No. of practitioners: 13
No. of CFP® practitioners: 12
FPA Professional Practice since: 2011

"We're about building relationships. We don't care if you are a retiree with $1 million to invest or $10,000. If you need help, we want to find a way of helping you."

implementation, which was about three months of work. Today, it's still $4,000. And yet, we have more price resistance today than we had almost 20 years ago."

Patrick blames the culture of "free" which pervades society, and technological innovation that has enabled people in a way that we've never seen before.

But Patrick remains excited about the future of financial planning.

"As our profession matures, we will have the ethical, educational and behavioural frameworks in place that will enable us to be regarded in the same professional sense as doctors and surgeons. And as respected professionals, we'll be able to shift the conversation away from price to advice. We're getting to that place now, which is terrific to see and very exciting for the profession."

While winning the award has provided Patrick's team with a definite morale boost, he adds that the award will also provide his clients with the confidence and affirmation they have entrusted their financial wellbeing to a team of professionals "who really know what they are doing".

"And I'm hoping, in the best possible way, that ipac Western Australia will be seen as an example of best practice for other planning practices," Patrick says.

"I think financial planners get too caught up in an ideologically driven view of what a financial planning business should look like.

"Yet, here we are, an amalgamation in an aligned licensee. We're a bigger business than most, and yet within, we have diverse planner personalities who are still able to bring it all together and consistently deliver client outcomes that are independent of any individual adviser.

"We've corporatised the advice without losing the personality, which has been great for our business."

All about good karma

Kathy Havers CFP® is the first planner to win the Future2 Community Service Award for a second time. The award was presented to Kathy for her tireless involvement with community projects.

In what is a first for the FPA Awards, Kathy Havers CFP® has taken out the Future2 Community Service Award again, having taken out this same award two years prior.

But, as a two time winner, Kathy's excitement isn't waning.

"I'm very humbled to win this award for a second time," she says. "It's awesome recognition of the pro-bono and volunteer work we do day-to-day as planners. It comes back to you tenfold and goes beyond just financial planning. It's good karma."

When it comes to community involvement, Kathy is prodigious.

You may recall a story published in the June 2016 issue of *Financial Planning*. Kathy helped organise an event called 'Raising voices, rising communities', where she was able to help raise funds in excess of $100,000 for three very different community causes.

Not surprisingly, Kathy's community involvement and tireless dedication to a number of voluntary initiatives saw her entry win over the judges.

Not only does Kathy run her own practice in Melbourne but she is also a director of the Kindred Spirits Foundation; a philanthropic trust, where she works on a number of community projects in Victoria, as well as indigenous community projects throughout remote Northern Australia. These indigenous community projects include an enterprise development project (T.H.E. Kakadu Plum) that reaches from Broome and the Kimberley in the west to remote Wadeye in the Northern Territory and then across into Arnhem Land and Kakadu National Park.

The Future2 Community Service Award recognises members who have, in a pro-bono, volunteering or community service capacity, made an outstanding contribution to improving the circumstances of the most socially excluded or financially disadvantaged members of the community.

According to Kathy, the Kindred Spirits Foundation is a humanitarian community-focused organisation, engaging, assisting and strengthening disadvantaged communities across Australia. It supports local projects that have the potential to transform communities, encouraging and strengthening the people of those communities, by addressing the social and environmental issues affecting their quality of life and wellbeing.

"My client, Rhonda Renwick, is the Founder of the Kindred Spirits Foundation, which we set up 8.5 years ago," Kathy says. "Not only do we provide grants but we get actively involved in a number of the communities we work with. We do this through mentoring, guidance, networking opportunities, and professional and business assistance, which is provided on an ongoing pro-bono basis.

"The focus of the Kindred Spirits Foundation is about providing opportunities to marginalised and remote people and communities by assisting and enabling them to develop 'enterprises' which provides something meaningful for them to do within their communities."

Name: Kathy Havers CFP®

Age: 47
Position: Principal and Financial Planner
Practice: Catalyst Financial Group
Licensee: Magnitude
Years as a planner: 17 years
CFP® designation: August 2004

Kathy's winning entry also included her community involvement as School Council President of Bulleen Heights School; a specialist school for children with autism in Melbourne.

As the mother of Brady, her autistic son, Kathy is uniquely placed to help other families manage the lifelong emotional and financial roller-coaster of coping with and planning for a disabled child. She uses her knowledge and financial skills to help improve the lives of these children and their families.

"I've been involved with the school for nine years. I've written many grants, done a great deal of fundraising personally and through connections, and have focused on improving the outcomes for kids with disabilities and their families. It's been a rewarding experience," she says.

But why dedicate so much time to these pro-bono activities?

In answering, Kathy proudly shares

As a profession, the Future2 Foundation is non-negotiable. It's a key part of improving the profile of the profession.

her personal mantra that is the anchor for her emotional empathy and ethos: 'You haven't truly lived until you've done something wonderful for someone who can never possibly repay you.'

"It's the enormous self-fulfilment and emotional satisfaction you get when somebody squeezes your hand and truly thanks you for helping them. You know that you've made a difference. That's the ultimate self-fulfilment you get," she says.

"As financial planners, we have a lot to offer in the not-for-profit space with the business acumen we have. It's about using the skills that we've got to help others."

It was this personal belief that motivated Kathy to again enter the Future2 Community Service Award. It was a decision she didn't think twice about.

She also saw the FPA Awards as a perfect opportunity to share some "good news" stories about the profession with the wider community.

"I wanted to showcase the good things we do as a profession," she says. "Sometimes, I think the media gets caught up with the compliance and regulation of the profession, and overlooks what it is that financial planning is all about. It's actually about improving people's lives. So, we need to do a better job of getting these great client and community stories out to the wider public."

Not surprisingly, Kathy sees the FPA's charitable Foundation – Future2 – as being the perfect vehicle for generating these good news stories, by enabling planners to raise awareness of the profession's involvement in not-for-profit community initiatives.

"As a profession, the Future2 Foundation is non-negotiable. It's a key part of improving the profile of the profession," she says. "It demonstrates how we give back to the community by going above and beyond what we do every day. And it's also about being visible in the community by doing some great work.

"We should all embrace Future2 and support it. Many times, it's those little projects that just need an initial $5,000 or $10,000 to get them started. And that's what Future2 is all about."

And what advice does Kathy have for any planner considering entering the 2017 Future2 Community Service Award?

She offers some sage advice: back-up your application by actively supporting Future2 and the community.

"You need to actually support the Future2 Foundation, actively show what you are giving back to the community in a pro-bono or volunteer capacity, and demonstrate how you are contributing to improving the lives of disadvantaged young Australians," she says.

"Remember, as planners, it's the 'one-percenters', the little things we do, that that really improve the lives of our clients and those less fortunate within the community. And that's what financial planning is truly all about."

The foundation of good advice

As the inaugural winner of the FPA Paraplanner of the Year Award, Cynthia Sercombe welcomes the acknowledgement of the work paraplanners do in the advice process.

Name: Cynthia Sercombe

Age: 29
Educational qualifications: BComm
Position: Head of Advice
Practice: Tupicoffs
Licensee: Tupicoffs
Years as a planner: 8 years

> "Paraplanning is an integral part of the financial planning profession. A lot of the hard work in the advice process happens in paraplanning and if anybody disagrees with that, well they probably haven't interacted with a good paraplanner."

It was five years ago that *Financial Planning* magazine first met Cynthia Sercombe – a young paraplanning professional fresh out of Griffith University working in the Brisbane office of Tupicoffs.

Fast-forward five years and this young professional has taken out the inaugural FPA Paraplanner of the Year Award for 2016. And you'd be hard pressed to find a more passionate advocate of paraplanning.

"Winning this award means a great deal to me. It's a real honour," Cynthia says.

"Paraplanning is an integral part of the financial planning profession. A lot of the hard work in the advice process happens in paraplanning and if anybody disagrees with that, well they probably haven't interacted with a good paraplanner."

The FPA Paraplanner of the Year Award was introduced to recognise the most outstanding paraplanner who has demonstrated excellence in paraplanning. The judges gave Cynthia the nod in recognition of her technical excellence, dedication to quality and her passion for providing pro-bono services.

Understandably, Cynthia is excited to see the FPA present an award that acknowledges the work paraplanners do. And she admits she has waited a long time for the profession to have such an award.

"I actually wrote a couple of plans a few years ago that won the FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award and the FPA Financial Planner AFP® of the Year Award for the respective advisers. But those awards were theirs, not mine. So, I was always keen to get my own award; my own moment in the limelight, so to speak, instead of always being in the background."

Winning the award has given Cynthia the confidence of knowing that she is working at the top of her game and provided her with the motivation to continue to strive at being the best at what she does.

For somebody so passionate about paraplanning, it's not surprising that although Cynthia is currently undertaking her CFP® Certification studies, she is happy to remain in the paraplanning space – at least for the time being.

"I'm still not certain whether I'll become an adviser," she says. "I'm currently raising a young family, so I really don't want to take on the added responsibility of advising clients at this stage in my life. I'm quite happy doing paraplanning and it's something I enjoy."

However, she is keeping her options open and reveals that she is also considering venturing into the education side of the profession as a tutor or lecturer, once she has completed her CFP Certification studies.

And as an aside, Cynthia isn't closing the door entirely on becoming an adviser, saying it's something she will re-evaluate once she is committed to taking on a full-time workload again.

But it's Cynthia's enthusiasm for paraplanning that stands out. In fact, it's quite infectious. She encourages all new entrants to the profession to embrace their apprenticeship as a paraplanner.

"It's the foundation upon which all quality financial advice sits," she says. "Paraplanning is about knowing your stuff. It's about being technically competent and confident in what you're recommending."

And importantly, Cynthia adds that one of the key points for any good paraplanner is being able to push back if they are asked to write or recommend a plan or strategy they don't think appropriate for a client.

"That's why I like working at Tupicoffs. I am empowered to have my say in the process," she says. "As a paraplanner, it's important to stand up for what you believe in. After all, paraplanning is the foundation of all good advice."

Practical experience works best for student

Brad Aleckson is the second Griffith University student to take out the FPA University Student of the Year Award.

Name: Brad Aleckson

Age: 23
University: Griffith University
Education qualifications: Bachelor of Commerce – double major in Financial Planning and Finance, and a minor in Economics
Graduation: December 2016

The teaching staff at Griffith University must be doing something right, because since the FPA University Student of the Year Award was introduced in 2015, Brad Aleckson is the second Griffith University student to take out this award.

The award recognises finance students who demonstrate strong potential in the areas of accounting, banking and finance.

For the 23-year-old graduate – a two-time winner of the Griffith Award for Academic Excellence – winning the FPA award is something Brad definitely does not take for granted.

He was at the FPA Professionals Congress in 2015 when this award was first presented, which provided him with the motivation to knuckle down and focus on winning the award in 2016.

"When I first heard about this award, it gave me the incentive to win it myself," he says. "Not only is it the best award a finance student could receive from the profession he or she aspires to join, but it's also recognition for the four years of hard work I've put in to my degree."

Having graduated from Griffith University in December 2016 with a Bachelor of Commerce – with a double major in Financial Planning and Finance, and a minor in Economics – Brad says his motivation for studying financial planning stemmed from his interest in finance.

"To be honest, after I left school, I really didn't know what I wanted to do," he says. "I took a year off, which helped me to think about my future. I always had an interest in finance, so I decided to enrol in uni and do a commerce degree."

It's a decision he does not regret.

"One of my good friends, Nat Daley, is a financial planner. Nat coached and mentored me, and helped put me on the road towards a career in financial planning."

Brad has been working part-time with Nat in his Hillross Tweed Valley practice for the past two years, which he has found invaluable.

"I've been working one day a week doing office admin and just learning

the process of how an advice practice operates," Brad says. "I've been lucky to get practical work experience whilst studying. It's been a great way to get my foot in the door."

Having recently graduated from Griffith University, Brad will now be working full-time in the Hillross office, starting in a paraplanning and office administration role.

But he won't be content to stay in a paraplanning role for long. Brad has firmly set his sights on the CFP® designation.

"My aim is to start the CFP® Certification Program in 2017. I think I'll be able to knock that off in two years after which I'll take on an adviser role with clients," he confidently says. "That should give me about five years of industry experience."

For Brad, financial planning is about using his knowledge and passion about finance to help ordinary people better understand the complexities of finance. It's about simplifying the complex and removing the stress from people's lives. And it's something he thinks he's good at doing.

And what advice does he have for other students currently studying financial planning?

"Lots of coffee," he jokes. "But seriously, reach out to quality financial planning practices and try and get your foot in the door with one of them. By working in an office environment, you'll learn a lot quickly and get practical experience.

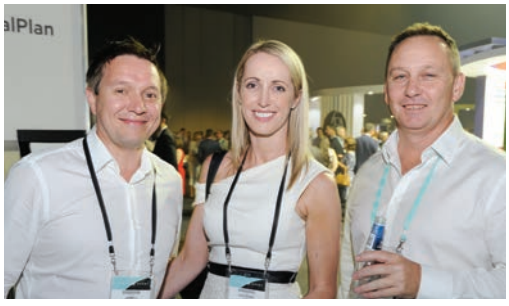
"And find somebody who can mentor you," Brad says. "This is absolutely invaluable. By tapping into their life experience, you not only learn but develop as a person and as a professional."

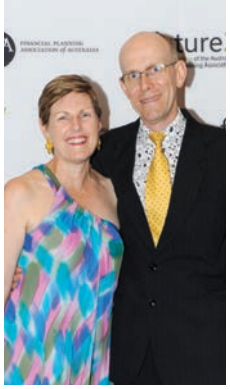
"Not only is it the best award a finance student could receive from the profession he or she aspires to join, but it's also recognition for the four years of hard work I've put in to my degree."

FPA *Professionals*
CONGRESS
PERTH 23-25 NOV 2016

Profession prepares to

The FPA Professionals Congress provided over 1,000 delegates with three days of learning, networking and inspiration. The following are some of the visual highlights of Congress 2016.





be Future Ready

> I don't think anybody would say that gender imbalance doesn't exist within the industry.
>
> — Marianne Perkovic

Participants

Marianne Perkovic

Executive General Manager, Commonwealth Private

Marisa Broome CFP®

Principal, Wealth Advice

Maria Lykouras

General Manager, Advice Licensee Services, Commonwealth Bank

Michelle Tate-Lovery CFP®

Principal Adviser and Director, Unified Financial Services

The glass ceiling

Financial Planning spoke to a panel of industry professionals about what needs to be done to encourage greater gender diversity in the profession.

Q: Why, in 2017, are we still talking about gender imbalance in financial services?

Maria Lykouras (ML): When you look around the financial services industry, there is still a low number of women proportionally to the number of women in society. As a result, you see a lower representation of women in financial planning. A lot of effort and focus is required to bring more women into the profession. But I also think there hasn't been enough female role models to encourage more women to want to join the financial services industry.

Marisa Broome (MB): Women in the profession have come a long way but we still have a long way to go. If you look at the legal profession, it's 50/50 in terms of gender balance, while current graduates out of business are about 55 per cent women, yet they are not opting for a financial services career role. I think the problem is a lack of flexibility for some people, and maybe it's a career that appears too stressful for others because they don't fully understand the options available to them.

Part of the FPA piece around student engagement is to explain to students what financial planning is all about because they don't actually know. Financial planners are not investment advisers. There is confusion about the two.

Marianne Perkovic (MP): I don't think anybody would say that gender imbalance doesn't exist within the industry. The issue for me in getting more females into the profession is actually an issue about flexibility.

So, a couple of things as to why there are not a lot of women in this industry is that we haven't had, until recently, our own education standards and tertiary degrees to get into financial planning. Instead, they've been economics and business-related accounting degrees, which have traditionally been more male dominated.

Then when you get to the workforce, we really need to understand that women are still the primary carers for either their children or ageing parents. And so, to really get to the heart of how we can actually improve the gender balance, it really comes down to flexibility in the workplace.

I think workplace flexibility has been tied up as just being a female issue, so that's why it didn't have male advocates to help encourage that. But I think work flexibility is the issue and solving that will actually enable more women to come through the workforce. In fact, it's about making workplace flexibility a non-gender issue.

We have technology now that can really enable working outside an office type environment. So, I think women are in a great position to offer this type of flexibility, and this will promote more women in the workforce.

MB: The Gen Y expectation is for flexibility, career challenge and change. They're pushing us for workplace flexibility.

Q: How is workplace flexibility addressed in your business? Is it something that is highlighted and being currently addressed?

Pippa Elliott (PE): We're a team of six women and three of us are mothers. So, flexibility includes starting earlier and finishing earlier. It's not so much about retention, but it's about attraction. The other two advisers in my business had

Continues on page 30

Hugh Humphrey

General Manager, Wealth Management, Commonwealth Financial Planning

Pippa Elliott CFP®

Director, Momentum Planning

Jason Andriessen CFP®

General Manager, Marketing and Financial Planning, StatePlus

no intention of being advisers, but by encouraging them and showing them the flexibility that could be offered, that convinced them to become advisers.

I'm encouraged to hear that 40 per cent of students in financial planning are women. I think change is coming and I think moving from an industry to a profession is a key part of that.

Hugh Humphrey (HH): We're achieving this by being a role model right from the top down. Ian Narev (Managing Director and CEO of the Commonwealth Bank Group) talks about it being of fundamental importance to the business and the expectation is that at every level, flexibility is created. And that's encouraging.

I think traditionally, people associated flexibility with lower level roles that weren't as demanding, such as job shared roles.

What CBA has recognised is you can't just say you believe in flexibility and support it. You actually have to create the frameworks for that to happen. And at Commonwealth Financial Planning, we have a lot of different role types that can be done from different locations.

What's interesting for me is that I think it demands a more sophisticated type of leadership, where people are thinking about how they create a flexible workplace environment and being thoughtful about creating opportunities for people. That's because people still feel uncomfortable bringing up the conversation of flexibility, as they think it has negative connotations.

> As a profession, there is a whole lot of financial literacy we have to do with consumers.
>
> — Marisa Broome CFP®

MP: I think it really comes back to Maria's comment on role modelling. What was understood at a senior level was that you needed role models and you needed gender diversity. We've got a female chair now at the CBA and the Board has got a good mix of genders. Ian Narev's management team has a gender split of 50/50 and that gender diversity is spreading through the business. We're openly talking about programs, celebrating success and having people share their stories. It's really created a different culture within the business.

You also have to look at how you go about recruiting people. It's actually trying to empower and enable those conversations at the front-end. And it needs to start from the top down.

So, if somebody from my team comes to me and says, 'Somebody has asked about flexibility but the job can't be flexible because it's a client contact role', I actually challenge that assessment and ask why it can't be. As a profession, we have to challenge that type of traditional thinking.

We have a population that needs advice and as a profession, we need to have that gender balance to ensure that our clients are getting the right innovative solutions. And that all comes with gender diversity.

Q: How can the profession better support the financial outcomes of women to help them become more 'future ready'?

ML: We've implemented a program where we have educated all of our advisers, both male and female, on the specific needs of women and how to address those needs. The program also includes how to promote financial planning to women, so that they can bring them in as clients and help work with them to educate them on what financial advice is and how we can support them into the future.

Jason Andriessen (JA): Picking up on what Pippa said about perception is important. The conversations I have had with new recruits, like why they considered financial planning, have been interesting. They thought financial planning was about transactions and money, about calculations and mathematics, and sales targets.

But it's actually about caring, getting to know someone, helping them live according to their values, closing the financial gap and coaching them. It's a real relationship. If we can work as a professional community to change that perception, I think that would really turn the dial around in attracting the right people into the profession.

MB: 'A man is not a financial plan', is something I talk to my children, friends and clients about, because some of them are financially illiterate. So, as a profession, there is a whole lot of financial literacy we have to do with consumers.

And we need to have positive news stories in the marketplace all the time, if we are to change people's perception of our profession. We need to talk about the positive things we are doing.

MP: One of the important issues for women is the importance of superannuation, because they will have a break in their contributions. So, how do we actually make allowances for workplace leave and can that then be rolled forward to a larger contribution? That's a piece I think the industry can look at.

The second piece is about wealth protection and the importance of insurance. Unfortunately, there are specific health issues affecting women they need to deal with. So, having income protection to secure their income if something happens, is another critical thing for women, which will absolutely help improve their retirement savings.

Michelle Tate-Lovery (MTL): Financial planning is about having choices. When we teach kids about budgeting, it's about understanding that financial independence, particularly when life gets complex, will allow you to have choices.

If you really think about what we're all trying to do, it's to live the best life we can, to have choices and flexibility. Financial planners need to be better versed in having these discussions and building plans to cater for choices.

Continues on page 32

MP: CBA has invested in a huge financial literacy program and a lot of that is driven at school. The latest thing we've got is a tele-porter, which incorporates goggles with an iPad, so we can make financial literacy fun for kids. We have integrated this initiative into how children learn in their everyday life and have discussions around finance in a fun learning environment. It's these innovative solutions that can ultimately provide better financial outcomes for all Australians.

Q: Can encouraging more women to become financial planners help achieve the greater goal of providing more advice to more women?

MP: I certainly hope so. I don't think women knowingly want to defer the decision-making to their husbands. I actually think if you empower women with knowledge and empower them with the opportunity to understand, then more women will feel comfortable discussing their financial affairs and working through it.

MB: I believe the increasing professionalism of financial planning is the key to providing advice to more Australians. I think the generations coming through don't really care if they see a female or male planner, but they do care if they see someone who is knowledgeable.

I think the community expectation of financial advice is more than just investment advice. It's aged care and a whole lot more, which might attract more women to the profession. And the hope is that by increasing the level of professionalism, this will encourage more people to seek advice.

JA: The research I've done indicates there's not much evidence to suggest that women only want to deal with female financial planners. But there's no doubt that attracting more women to the profession will help more people to make better decisions and make them more 'future ready'. Professionalism will attract more women. We will have more role models and the profession will gain momentum.

MTL: I think we should attract both males and females from other non-finance disciplines to the profession. And if students of social science, psychology, communication and marketing could take electives in financial planning, I think you'd get a broader range of people who could add diversity to the profession.

I know there is a big education push by the profession, but the students I'm seeing at Griffith and Deakin Universities are still entering the workforce with the unfortunate misconception that financial planning is all transactional; it's about investments and numbers. We're a people profession and there are no people skills being taught. There are no language skills being taught around how to simplify complex issues into everyday language. Those sorts of skills need to be practised and encouraged.

Q: Are you seeing new recruits coming from other non-finance related disciplines?

ML: We have had recruits come out of teaching and nursing. They bring this great ability to mentor and coach clients, which has had a significant positive impact.

MP: The profession has some set educational requirements. Unfortunately, because of the education requirements for the role of financial planners, we can't take people from other disciplines. So, the actual course in financial planning needs to ensure it does have other disciplines and attributes attached to it, so that it's not just about finance.

MB: That's why only 14 of the 30 courses that are currently offered in Australia are accredited, because they have to have all those relevant components that make up financial planning.

I think we have a really strong message to send to this new education body that will be setting the new framework up, because it's going to start setting the framework of the approved degree. The profession can actually provide feedback on the sort of attributes a preferred degree should include.

Q: What needs to be done to better support women in the profession?

MP: I do think it's about flexibility and it's also absolutely about having male advocates – we need more male advocates. I have males in my team who say they are really trying hard at promoting gender diversity, but then I go to a forum and there's no women in attendance or I'm the only woman there.

So, I think we just need to really break down that mindset and have more men look around where they are - whether they're in a meeting or at a forum and so forth - and question, 'Have I got good gender diversity'. And in the workplace,

we actually have to promote more women to roles where we think there needs to be some gender diversity.

There's no one silver bullet. It's a combination of factors we need to introduce. But there is a shift happening in the industry. For example, it's great going to the FPA Professionals Congress and seeing so many women attending and presenting.

When it comes to gender diversity and empowerment, we all have a part to play.

Q: So, when it comes to gender diversity, should promotion happen based on gender or ability?

MP: This is a hard issue. I would love the day when this didn't happen because the better person, irrespective of gender, got the job. But we have to stare into reality and realise that unless we actually have quotas, change won't happen. That's because, unfortunately, the better person always ends up being a male. Why is that? Because they have been in the industry longer, while females are likely to have had a career break to raise children, meaning they may have three or four skills that are missing.

All women hate it when this topic is raised because you think 'yes, it's got to be the right person for the job'. But unfortunately, I think we're still looking at a few more years yet, where we have to make allowances in order to encourage more women to join the profession.

JA: I agree with that. We need an intentional approach to effect change.

MB: Interestingly, the Institute of Company Directors is saying it's actually the thinking process you need diversity in, and whether that comes from a woman or somebody from a different ethnic background, you need to have diversity in the thought-process.

HH: If we're to crack this nut of helping more people get advice, then advisers need to reflect the communities in which they're operating. So, you can't just have one group dominating the industry or we'll never be able to service all the different communities, whether it's gender, ethnic or otherwise.

Q: How do we get more advocates to support the diversity challenge within the profession?

PE: Flexibility is not just about women. Programs that offer flexibility to men and women will create what we're looking for. When it's not just about women, when it's about everybody, it becomes inclusive.

HH: We look at what might get in the way of males advocating: is it a lack of understanding, is it a fear or concern, is it an inherent bias – conscious or unconscious? It's important to address those issues, talk openly about them and empower people to make changes.

MP: Ultimately, you have to passionately believe in gender diversity, or any diversity for that matter. When we recruit people, we really need to say: 'Do you support and promote diversity in the workplace?' And if people aren't advocating for it or are making change difficult, we have to proactively remove those people from the workplace. Because with them in there, they are the roadblocks to change.

You wouldn't recruit a planner now who hasn't the right education standards. Well, we shouldn't be recruiting people who are going to stifle gender diversity in the workplace.

MTL: I also think mentoring is absolutely important. I have been involved with many mentoring groups, predominantly mentoring males.

I think mentoring in a structured way is an investment in people for the future. If you get it right, that ripple effect is prolific. And it's another great way of culturing male advocates, in a supportive environment, for gender diversity.

Financial Planning thanks all participants for their involvement in this roundtable discussion.

> When it's not just about women, when it's about everybody, it becomes inclusive.
>
> — Pippa Elliott CFP®

To answer questions
www.fpa.com.au/cpdmonthly

Centrelink and aged care: The 'retain and rent' strategy

LING WANG
IOOF

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- Centrelink asset test changes
- Residential aged care
- Rent and retain strategy

It's no secret the Government is tightening the purse strings. Since 2015, the Government has legislated changes to social security means testing to reduce the level of Centrelink support for retirees with some assets of their own.

Now the Government is changing the rules for a specific group of retirees – namely, homeowners entering residential aged care who choose to keep and rent out their former home. These changes to Centrelink means testing of the former principal home (for those entering residential aged care on or after 1 January 2017), are included in the *Budget Savings (Omnibus) Bill 2016*. This Bill received Royal Assent on 16 September 2016.

This article will discuss these changes in detail, along with their interaction with 1 January 2017 Centrelink asset test changes. In particular, we consider the impact of the changes on the 'retain and rent of the former home' strategy.

What are the changes to the assessment of the former home?

Importantly, changes to the assessment of the former home will affect only:
- Those who enter a residential aged care facility on or after 1 January 2017;
- Those who are changing facilities and have left the previous facility for more than 28 days.

Existing residents, or those who are able to move facilities within 28 days, are exempt from the new rules.

From 1 January 2017, the indefinite exemption granted to former homes belonging to people entering residential aged care will cease. Currently, this indefinite exemption lets those who pay periodic accommodation costs[1] and rent out their former home, keep an income generating asset while maximising Centrelink/Department of Veterans' Affairs (DVA) Age Pensions.

Removal of the indefinite exemption will cause net rental income from the former home to be counted by Centrelink/DVA when applying the income test.

Currently, when applying the assets test, however, a short-term exemption for the former home is available. This exemption will remain, as it is separate to the indefinite exemption and is not affected by changes coming into effect in 2017.

The former home of a person entering a care situation will be exempt for up to two years from

TABLE 1

Household status	Asset test free limit (current)	Asset test free limit (from 1 Jan 2017)	Maximum asset limit (current)	Maximum asset limit (from 1 Jan 2017)
Single homeowner	$209,000	$250,000	$793,750	$542,500
Couple homeowner (illness separated)	$296,500	$375,000	$1,466,000	$960,000
Single non-homeowner	$360,500	$450,000	$945,250	$742,500
Couple non-homeowner (illness separated)	$448,000	$575,000	$1,617,500	$1,160,000

the date of entry[2]. During this period, the person will continue to be assessed as a homeowner.

Once the two-year period is over, the value of the former home will be assessed under the non-homeowner asset limits.

How the change interacts with the asset test changes

In addition to changing how the former home will be assessed for Centrelink/DVA means testing, another set of changes will apply from 1 July 2017 – namely, the assets test changes.

These changes include:

- Increasing the asset test free limits; and
- doubling the taper rate from $1.50 to $3.00.

These changes mean that a person whose assets exceed the asset test free limit will lose their Age Pension at a much faster rate. The assets test limits are set out in Table 1.

Although Centrelink assets test changes commence on 1 January 2017, the impact of renting out the former home on the assets test will not be felt until 1 January 2019, as a result of grandfathering and the two year exemption discussed earlier.

Entering residential aged care on or after 1 January 2017

While the impact on assets test assessment will be delayed for two years, the impact on the income test is more immediate. From 1 January 2017, Centrelink will assess rental income after deducting allowable rental expenses. Building write-off and depreciation expenses cannot be used to reduce the amount of rent counted as income.

The information will be sourced from the most recent tax return and notice of assessment, and if a tax return is not available, two-thirds of the gross rent (minus interest income, where applicable) will be counted as income.

The inclusion of net rental income could significantly decrease the rate of the Centrelink Age Pension. Every dollar of assessable income over the income free limit will reduce Age Pension entitlement by 50c in the dollar. For a single homeowner, and using current rates, $15,000 excess income will reduce the Age Pension by $7,500 per annum or $288 per fortnight.

In some cases, depending on what other income is counted by Centrelink, inclusion of the net rental income may cause total loss of the Age Pension, such as those who receive a government defined benefit superannuation income stream.

Interaction of Centrelink means testing with aged care rules

The Government has referred to these upcoming changes as 'harmonising' Centrelink rules with aged care rules. This recognises the link between Centrelink means testing and aged care means testing.

However, the term is slightly misleading as the aged care assets test assessment of the former home is separate from Centrelink rules. Under aged care rules, the former home is an assessable asset unless it is occupied by a protected person. A protected person[3] is:

- the person's partner or dependent child
- the person's carer, who has lived in the home for the past two years and during that time would be eligible for an income support payment
- the person's close relative, such as a sister, brother, parent, child or grandchild, who has lived in the home for the past five years and during that time would be eligible for an income support payment.

If a protected person does not live in the former home, the value of the home is counted, but capped at $159,631.20[4]. As a result, if the former home is rented to a person who is not a protected person, given the average value of residential property in Australia, it is likely that the capped value will be the amount assessed for the aged care assets test. This methodology of assessing the former home will not be affected by 1 January 2017 changes. Importantly, there is no concept of a protected person for Age Pension means testing purposes.

On the other hand, income that is counted for aged care purposes not only includes the same income[5] that is counted for Centrelink/DVA purposes, but also includes the amount of Age Pension[6] the person is entitled to. Therefore, including net rental income for the Centrelink income test is likely to reduce the amount of Age Pension and likewise decrease the amount of income counted for aged care fee purposes. Consequently, the 1 January 2017 changes are likely to reduce aged care fees when the former home is retained and rented.

Given that the changes lead to the Age Pension reducing (not a good thing), as well as potentially aged care fees reducing (a good thing), what does this mean for the 'rent and retain' strategy?

Do these changes mean that the rent and retain strategy will no longer be effective from 1 January 2017?

Not necessarily. However, the combination of the assets test changes and means testing of the former home is likely to result in a significant reduction or even loss of the Age Pension when

Continues on page 36

the home is rented. In addition, unless clients have other assets to pay most of the accommodation costs upfront, the Daily Accommodation Payments (DAP) may exacerbate cash flow issues. Unless net rental income is high enough to replace the lost cash flow, the 'retain and rent' option may not be a viable option.

The following example will help to illustrate this point.

Example[7]

Kenny, aged 70 and single, is currently receiving a full Age Pension. His health is declining and he needs to move from his home of 40 years into a residential care facility. His assets and income are outlined in Table 2.

TABLE 2

Assets	Capital	Income
Cash (4% interest)	$5,000	$200
Shares	$5,000	$0
Principal home	$1,000,000	$0
Account based pension (grandfathered, deductible amount $4,500)	$75,000	$3,750
Age Pension	$0	$22,805
Total	**$1,085,000**	**$26,755**

Kenny has been asked to pay an accommodation payment of $300,000. Kenny has two main options as follows:

1. Retain and rent the family home and pay $85,000 of the accommodation payment as a refundable accommodation deposit (RAD) and the balance as a DAP. We have assumed Kenny generates assessable income of $27,000 per annum from his former home.

2. Sell the family home and pay the accommodation payment in full as an RAD.

Table 3 compares the impact of the changes to the assessment of the former home, as well as the assets test changes on the two options identified above.

It is obvious from Table 3 that cash flow is a key consideration, particularly if entering aged care in 2017. Although aged care fees are higher if Kenny enters aged care before next year and rents out his former home, these costs are effectively funded by the Age Pension and net rental income.

In contrast, if he enters care in 2017 and rents out the house, reduction of the Age Pension means that he will just have sufficient cash flow to fund his aged care costs. However, the small amount of surplus means that he may not have enough funds for unexpected increases in costs, such as expensive repairs.

To prevent this, he may have to sell his former home to free up cash, or consider using part of his RAD to fund any shortfall.

TABLE 3

	Rent and retain (if entry before 1 Jan 2017)	Rent and retain (if entry on or after 1 Jan 2017)	Sell home and pay accom costs as 100% RAD (if entry before 1 Jan 2017)	Sell home and pay accom costs as 100% RAD (if entry on or after 1 Jan 2017)
Centrelink/ DVA				
Assessable assets	$0	$0[8]	$785,000	$785,000
Assessable income	$0	$27,000	$22,175	$22,175
Age Pension	**$22,805**	**$11,437**	**$6,249**	**$0**
Aged care				
Assessable assets	$244,631	$244,631	$1,080,000	$1,080,000
Assessable income	$48,528	$37,160	$27,147	$27,147
Daily care fee	$17,681	$17,681	$17,681	$17,681
RAD	$85,000	$85,000	$300,000	$300,000
DAP	$12,384	$12,384	$0	$0
Means-Tested Care Fee	$12,249	$6,552	$16,867	$16,188
Total aged care fees	**$42,314**	**$36,616**	**$34,548**	**$33,869**
Cash flow				
Cash flow from investments	$27,000	$27,000	$30,671	$30,671
Age Pension	$22,805	$11,437	$6,249	$0
Aged care fees	$42,314	$36,616	$34,548	$33,869
Total net cash flow	**$7,491**	**$1,821**	**$2,372**	**($3,198)**

Doing this will increase the DAP and may compound his cash flow problems over time. Based on this analysis, the best outcome for Kenny is to take advantage of the 'retain and rent' option before 1 January 2017. This will enable Kenny to benefit from grandfathering (exemption) from the new rules.

What if Kenny's former home is worth $400,000 instead?

All information is the same as previously described, except that net rental income for the property will be $15,600.

The outcome for Kenny is very different due to his home being a lower value than the previous example. If he chooses to sell the home and use the proceeds to pay the entire accommodation costs upfront as an RAD, his assessable assets and income drops to a level that qualifies him for the maximum Age Pension. This is because being of lower value, most of the proceeds will be used to fund the RAD (which is exempt from Centrelink/DVA means testing).

A lower home value also means that his aged care fees will be lower if he chooses to sell the former home and invest the remaining proceeds in financial assets. This is because the deemed income will be lower than the net rental income assessed under the income test in this case.

TABLE 4

	Rent and retain (if entry before 1 Jan 2017)	**Rent and retain (if entry on or after 1 Jan 2017)**	**Sell home and pay accom costs as 100% RAD (if entry before 1 Jan 2017)**	**Sell home and pay accom costs as 100% RAD (if entry on or after 1 Jan 2017)**
Centrelink/ DVA				
Assessable assets	$0	$0	$185,000	$185,000
Assessable income	$0	$15,600	$2,837	$2,837
Age Pension	**$22,805**	**$17,137**	**$22,805**	**$22,805**
Aged care				
Assessable assets	$244,631	$244,631	$485,000	$485,000
Assessable income	$37,128	$31,460	$24,365	$24,365
Daily care fee	$17,681	$17,681	$17,681	$17,681
RAD	$85,000	$85,000	$300,000	$300,000
DAP	$12,384	$12,384	$0	$0
Means-Tested Care Fee	$6,534	$3,694	$4,256	$4,256
Total aged care fees	**$36,598**	**$33,758**	**$21,937**	**$21,937**
Cash flow				
Cash flow from investments	$15,600	$15,600	$7,950	$7,950
Age Pension	$22,805	$17,137	$22,805	$22,805
Aged care fees	$36,598	$33,755	$21,937	$21,937
Total net cash flow	**$1,807**	**($1,018)**	**$8,818**	**$8,818**

Consistent with the original scenario, entering aged care before 2017 will grandfather Kenny from the changes. However, besides cash flow there are other factors that should be considered as well, such as growth and income earning potential of the former home versus investing in financial assets, such as managed funds or term deposits.

What if net rental income is $35,000 instead?

Using the same information, but changing net rental income for the property to $35,000, the outcome changes as summarised in Table 5.

TABLE 5

	Rent and retain (if entry before 1 Jan 2017)	**Rent and retain (if entry on or after 1 Jan 2017)**	**Sell home and pay accom costs as 100% RAD (if entry before 1 Jan 2017)**	**Sell home and pay accom costs as 100% RAD (if entry on or after 1 Jan 2017)**
Cash flow				
Cash flow from investments	$35,000	$35,000	$30,671	$30,671
Age Pension	$22,805	$7,437	$6,249	$0
Aged care fees	$46,864	$38,620	$34,548	$33,869
Total net cash flow	**$10,941**	**$3,817**	**$2,372**	**($3,198)**

The cash flow surplus for the 'retain and rent' under the new rules is higher than in the original example. The reason for this is because the increase in aged care fees is not as much as the increase in rental income, even after taking into account the reduction in Age Pension.

Nevertheless, the same issue must be considered, namely, is the surplus adequate to manage unexpected costs? Also, the outcome is the same; entering aged care before 1 January 2017 will provide Kenny with more cash flow to fund his care costs.

Summary

Changes to social security means testing of the former home when entering care, coupled with changes to the assets test on 1 January 2017, make cash flow a key issue for consideration when discussing aged care with clients receiving an Age Pension benefit.

Continues on page 38

"While each case will differ according to variables, such as the value of the former home, net rental income, other assets and accommodation costs, these changes will generally lower the amount of Age Pension paid to homeowners renting their former homes to enter residential aged care."

A reduced, or even lost Age Pension could force the sale of the former home in order to fund aged care costs, and make the 'retain and rent' option an ineffective strategy.

Ling Wang, Technical Services Manager, IOOF.

Footnotes

1. Daily Accommodation Payment (DAP) or Daily Accommodation Contributions (DAC).
2. *Social Security Act 1991 s11A (9)(b).*
3. *Aged Care Act 1997 s44.26A (6).*
4. Based on thresholds current as at 20 September 2016.
5. Rental income is included as income for residents who entered care on or after 1 January 2016.
6. Minimum Supplement and Energy Supplement excluded.
7. Rates current as at 20 September 2016 used in this example – Maximum Permissible Interest Rate is 5.67% (based on October to December 2016 rate).
8. The former home is exempt for two years from date of entry.

"While each case will differ according to variables... these changes will generally lower the amount of Age Pension paid to homeowners renting their former homes to enter residential aged care."

QUESTIONS

1. Who will be affected by changes to Centrelink/ DVA assessment of the former home?

a. Those entering aged care on or after 1 January 2017.

b. Those changing facilities within 14 days.

c. Those who entered aged care and rented out their former home before 1 January 2016.

d. Those who entered aged care before 1 July 2014.

2. Which of the following is true in respect of assets testing of the former home?

a. For Centrelink purposes, the former home will be indefinitely exempt if a protected person lives there.

b. For Centrelink purposes, the former home will be exempt for two years after entering aged care.

c. For aged care purposes, the full value of the home is counted.

d. Centrelink will assess a person as a non-homeowner the day they enter an aged care facility.

3. Which of the following is true in respect of Centrelink means testing?

a. From 1 January 2017, excess income will reduce the Age Pension by $3.00 per fortnight.

b. If the home is rented out, Centrelink will use deeming rules on the value of the home to calculate assessable income.

c. The RAD is counted as an asset.

d. The RAD is exempt from assets and income testing.

4. Which of the following is not true in respect a person entering aged care on or after 1 January 2017?

a. Aged care assets assessment of the former home is not affected by changes contained in the Omnibus bill.

b. Rental income is exempt for the first two years after entering care from aged care income assessment.

c. Other important things to consider include asset diversification and expected rates of return.

d. The retain and rent strategy may still be a viable option.

To answer questions
www.fpa.com.au/cpdmonthly

The role of LRBAs in SMSF property developments

FABIAN BUSSOLETTI
AMP

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- Non-Arm's Length Income
- Unit trust structures
- Related party loans

In recent years, Limited Recourse Borrowing Arrangements (LRBAs) have enabled many SMSFs to borrow money in order to acquire a variety of property investments.

However, the role that LRBAs are able to play when property transactions involve an element of property development often causes confusion, added complexity and potentially missed opportunities.

Limitations and misconceptions

It is now reasonably well understood that the ability exists for SMSF trustees to borrow money, under an appropriate LRBA structure, in order to buy an asset – in practise, this has typically involved a property asset. And, while the structure required for a complying LRBA must be well understood, it is a discussion that is beyond the scope of this article.

However, when it comes to acquiring property (or any asset) under an LRBA, it is critical to remember that the money borrowed must only be used to acquire an asset, and the asset must be a single acquirable asset.

Further, it is this asset and this asset alone that the fund can use as security for any borrowings undertaken by the SMSF under an LRBA – even though the asset is held in a separate holding trust.

Importantly though, money borrowed under an LRBA cannot be used to improve an asset (whether that be an existing asset of the fund or an asset that is acquired under an LRBA).

It would appear though that this restriction has led to the misconception that an SMSF is unable to conduct improvements to an asset that has been acquired under an LRBA, whereas quite the opposite is true.

An SMSF asset acquired under an LRBA can be improved as long as two critical points are not overlooked:

1. Money used to conduct the improvement must be money that the fund already holds. This could be, for example, existing cash holdings or amounts contributed by members. Money borrowed by the fund cannot be used to finance improvements; and

2. The improvement to the property cannot result in the nature of the asset being changed.

Example 1

Jace and Sophie have an SMSF with assets of around $400,000, which includes $200,000 in cash accounts.

They decide to borrow $400,000 to buy a residential property under an LRBA.

As part of the acquisition, they also plan to spend around $150,000 (from their existing cash holdings) to add an extension, comprising of an additional bedroom, pergola and a new garage.

Such an improvement would be permitted because:
- it was financed using existing fund assets (ie, not with borrowed money); and
- notwithstanding the scale of the improvements, it will not result in a change to the character of the asset. That is, it's still a residential property.

On the other hand, there are numerous other examples where development activities would result in a change to the nature of an asset. Such improvements would not be permitted while the LRBA is in place, regardless of the source of the

Continues on page 40

finance. This includes things like:

- land acquired with a view to future sub-division;
- vacant land acquired for subsequent development; and
- residential property (often a house) acquired with the view of being replaced with a townhouse/unit/complex or similar.

In saying that, it should be noted that while the above transactions are prohibited while an LRBA is in place, once the loan has been repaid, and the legal ownership of the asset returned to the fund, there is nothing preventing the property asset being redeveloped (albeit using existing fund assets) to the point where the character changes.

Example 2

Peter and Eliza have an SMSF. They have also entered into an LRBA to acquire a residential property.

They plan to rent the home to unrelated tenants for around 10 years while they repay their LRBA (ie, it will be held as an investment property). They expect to have the loan repaid in around 10 years, at which time the property title will subsequently be transferred to the fund.

Using a combination of accumulated cash holdings and additional member contributions, the property will be demolished and replaced with three free-standing villas/townhouses.

While this development activity clearly results in a change to the nature of the original asset, it will not result in a breach of the LRBA requirements as the development activity will only occur after the LRBA is extinguished, and will be conducted using existing fund assets (ie, not borrowed money).

For the sake of completeness, it's also worth noting that not all arrangements involving the development of vacant land will be treated in the same way.

For example, consider a scenario involving an SMSF acquiring a property 'off-the-plan' under an LRBA. That is, where fund trustees enter into a contract to acquire, as a 'package', land with a yet to be constructed house on it and to fund the acquisition using borrowings under an LRBA.

As the contractual arrangement in these scenarios is for the acquisition of land with a completed property on it (ie, the completed home is the single acquirable asset), and settlement occurs once construction of the house is finished, the deposit, progress payments and the payment on settlement can all be funded under a single LRBA.

A troublesome solution

In some cases, where otherwise prohibited property development activities (such as those listed above) are required, the use of a unit trust structure has often been presented as a potential solution.

The reason such an approach may be considered a suitable strategic solution lies in the fact that the single acquirable asset, ie the asset being acquired by the SMSF under the LRBA, in this case is the collection of identical units in that unit trust (as opposed to the actual property itself). The property in question is subsequently acquired by the unit trust.

As such, any required property development activity would be conducted by the trust and not the SMSF. The overall result being that while the property (which is owned by the unit trust) is being developed, the nature/character of the units (owned by the SMSF under an LRBA structure) remains unchanged.

It should be noted that the use of these trusts, typically ungeared unit trusts (or 13.22C trusts), introduces further strategic complexity that must be given due consideration – a detailed discussion of these issues are beyond the scope of this article.

This solution also poses significant practical limitations. This is largely due to the fact that, as noted earlier, the collection of units in the unit trust is the single acquirable asset that was acquired under the LRBA. As such, it needs to be remembered that from an SMSF borrowing perspective, it is only these units that can be used as security for the SMSF's borrowing.

Further, due to the restrictions placed on these unit trust investments, the property held within the unit trust cannot be offered as security.

In practise, this has proven to be a significant obstacle when it comes to securing finance through a commercial lender – as commercial lenders are unlikely to look favourably on these units as their only recourse.

The trouble with related party lenders

Of course, a potential solution to this practical limitation may involve the SMSF borrowing money from a related party, for example, a fund member, as opposed to a commercial lender.

The use of related party loans under an SMSF LRBA has been the source of considerable discussion for several years.

In more recent times, the focus of these discussions has revolved around the possibility that such private loan arrangements could result in the income derived by the fund (under this arrangement) being treated as Non-Arm's Length Income (NALI), which would attract tax at the highest marginal tax rate (ie, currently 47 per cent).

In this context, the NALI provisions are likely to apply where the SMSF is considered to have derived more income under the LRBA than it might have been expected to derive if the parties had been dealing with each other at arm's length.

The good news on this front is that the ATO has provided SMSF trustees with some safe harbour provisions (via PCG 2016/5), ensuring that this tax outcome can be avoided if the terms and conditions associated with these related party loans meet a set range of criteria.

Unfortunately though, these safe harbour provisions only apply to direct property

investments and investments in listed securities. They do not extend to related party loans when the asset in question is, for example, units in an unlisted unit trust.

As a result, SMSF trustees who choose to employ this type of unit trust strategy to achieve a property development exercise are exposing themselves to potentially significant tax penalties should their loan arrangement not be considered as being on commercial terms.

According to the ATO's recently released Tax Determination *TD 2016/16*, an SMSF trustee(s) must be able to:

1. Identify what the terms of the borrowing arrangement may have been if the parties were dealing with each other at arms' length (ie, a hypothetical borrowing arrangement); and

2. That it is reasonable to conclude that the fund could have, and would have, entered into the hypothetical borrowing arrangement based on factors such as the fund having sufficient capital available, the ability of the fund to service the loan, and whether the arrangement would be an optimal use of their funds and earnings accretive.

In particular, if the fund trustees are unable to meet this second requirement, all of the income derived from the arrangement would be treated as NALI. That's because the fund could not and/or would not have been able to enter into the arrangement in the first place. Therefore, any income generated from the arrangement is more than the amount of income that would have been possible (under arm's length terms).

Determining whether a loan is on commercial terms

Without the ability to rely on the safe harbour provisions, the challenge for SMSF trustees is in being able to conduct a thorough benchmarking exercise which compares the terms of their related party loan arrangement against those offered under a commercially available loan arrangement – and to then ensure that the two are consistent.

In the absence of a readily available market for these types of loans, such a task may prove difficult to complete.

Based on the limited guidance provided by the ATO on this aspect, it is clear that this exercise must go beyond simply addressing the level of interest rate that is charged. SMSF trustees must consider the totality of the loan terms including, but not limited to:

- the interest rate;
- whether the interest rate is fixed or variable;
- the term of the loan; and
- the loan to market value ratio (LVR).

Given the level of complexity, and the potentially hefty tax penalties involved, it would be prudent for SMSF trustees to seek appropriate binding advice from the ATO by way of a private binding ruling prior to proceeding.

Fabian Bussoletti, Technical Services Manager, AMP TapIn.

QUESTIONS

1. Of the following statements, which is true?

a. An SMSF is able to borrow money to improve an existing property asset.

b. An SMSF is unable to improve an SMSF property, even after the loan has been repaid.

c. An SMSF is able to improve an asset acquired under an LRBA, as long as it uses existing money (ie, not borrowed money), and the nature of the property doesn't change.

d. All of the above.

2. Where an SMSF borrows money to buy units in a private unit trust, and that unit trust subsequently purchases property for development purposes:

a. This will lead to a breach of the sole purpose test.

b. The collection of units in the unit trust are treated as the single acquirable asset.

c. The SMSF is able to use the property held within the unit trust as security for its borrowing.

d. Property development activities within the unit trust, where they result in a change to the nature of the property, will result in a breach of the borrowing prohibition.

3. Which of the following would not be recommended under an SMSF LRBA (while the loan is still in place)?

a. Land acquired with a view to future sub-division.

b. Vacant land acquired for subsequent development.

c. The acquisition of a house, acquired with a view to being replaced with three townhouses.

d. All of the above.

4. An SMSF LRBA, which involves a related party lender, will always result in the NALI provisions being applied to the income generated under the arrangement. True or false?

a. True

b. False

To answer questions
www.fpa.com.au/cpdmonthly

Changes to reportable fringe benefits

From 1 January 2017, the way the Department of Human Services assesses reportable fringe benefits to calculate a person's adjustable taxable income for certain payments is changing.

Currently, if a person receives reportable fringe benefits from their employer, the Department assesses 51 per cent of the total value. From 1 January 2017, this will change to 100 per cent.

This change may affect the payment rate or eligibility for any payment that requires the calculation of adjusted taxable income, including:

- Family Tax Benefit Part A and B;
- Child Care Benefit;
- Stillborn Baby Payment;
- Parental Leave Pay;
- Dad and Partner Pay;
- Assistance for Isolated Children;
- Youth Allowance; and
- ABSTUDY Living Allowance.

If your client, or their child, receives any of these payments and fringe benefits from employment, they will receive a letter from the Department explaining the changes and what they need to do.
For example, if they receive Family Tax Benefit (FTB) or Child Care Benefit (CCB), they will need to report the fringe benefits they receive by updating their family income estimate.

It is important to note if your client works for a not-for-profit organisation that is eligible for a fringe benefit tax emption under section 57A of the Fringe Benefits Tax Assessments Act 1986, the Department will continue to assess their fringe benefits at 51 per cent of the total value.

Examples of these types of employers include:

- public benevolent institutions;
- health promotion charities; and
- some hospitals and public ambulance services.

If your client is unsure if their employer meets this criteria, or if they receive reportable fringe benefits, the Department recommends they check with their employer's payroll.

Example 1

Kate receives FTB and has a work provided car that is considered a reportable fringe benefit. Her employer is not an exempt organisation.
From 1 January 2017, the Department will use 100 per cent of the value of Kate's car when it works out her adjusted taxable income. Kate's rate of FTB will reduce as a result.

Example 2

Sam receives FTB for his two children and his employer pays for some of his childcare costs. While this is a reportable fringe benefit, Sam's employer is a health promotion charity and therefore exempt. The Department will continue to assess 51 per cent of the childcare his employer pays. Sam's FTB rate won't change.

For more information about how the Department assesses employees' reportable fringe benefits as part of their adjustable taxable income, go to humanservices.gov.au/customer/enablers/adjusted-taxable-income

For more information about fringe benefits tax and exempt organisations, go to ato.gov.au/General/Fringe-benefits-tax-(FBT)/

FPA Chapter directory

New South Wales

Sydney
Andrew Donachie CFP®
Chairperson
T: 0400 834 069
E: andrew_donachie@firststatesuper.com.au

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

Newcastle
Mark Alexander CFP®
Chairperson
T: (02) 4923 4000
E: mark.a@crosbiewealth.com.au

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

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

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

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

ACT

Lisa Weissel CFP®
Chairperson
T: (02) 6241 4411
E: lisa.weissel@miqprivate.com.au

Victoria

Melbourne
Julian Place CFP®
Chairperson
T: 0418 111 224
E: julian_place@amp.com.au

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

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

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

Geelong
Lesley Duncan CFP®
Chairperson
T: (03) 5225 5900
E: lesley@planwellgroup.com.au

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

Goulburn Valley
Sandra Miller CFP®
Chairperson
T: (03) 5831 2833
E: sandy.miller@rishepparton.com.au

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

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

Queensland

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

Cairns
Kris Robertson AFP®
Chairperson
T: 0439 724 905
E: kris.robertson@bdo.com.au

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

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

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

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

Sunshine Coast
Natalie Martin-Booker CFP®
Chairperson
T: (07) 5413 9264
E: natalie@rightadvicefinancial.com.au

Toowoomba/Darling Downs
T: 1300 337 301
E: events@fpa.com.au

Townsville
Gavin Runde CFP®
Chairperson
T: (07) 4723 9188
E: gavin@runde.com.au

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

South Australia

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

Northern Territory

Susie Erratt CFP®
Chairperson
T: (08) 8980 9300
E: mha50580@bigpond.net.au

Western Australia

Fran Hughes CFP®
Chairperson
T: 0418 713 582
E: franhughes29@gmail.com

Tasmania

Todd Kennedy CFP®
Chairperson
T: 1300 651 600
E: todd.kennedy@mystate.com.au

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

FPA Board

Chair
Neil Kendall CFP® (QLD)

Directors
Marisa Broome CFP® (NSW)
Matthew Brown CFP® (QLD)
Mark O'Toole CFP® (VIC)
Delma Newton CFP® (QLD)
David Sharpe CFP® (WA)
Alison Henderson CFP® (NSW)
Philip Pledge (SA)
Mark Rantall CFP® (NSW)

Board Committees

Regional Chapter Committee
Matthew Brown CFP®

Professional Standards and Conduct Committee
Mark O'Toole CFP®

Audit Committee
Philip Pledge

Governance and Remuneration Committee
Neil Kendall CFP®

Policy and Regulations Committee
Marisa Broome CFP®

Professional Designations Committee
To be confirmed