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Above and beyond

Eleni Michael CFP® on how trusted advisers make all the difference to retirement outcomes

THIS ISSUE

CHRIS SMITH'S AWARD WINNING CLIENT CASE STUDY / DIGITAL MARKETING FOR PLANNERS / PROPOSED SUPER REFORMS

ACT
Monday 20 June

Albury Wodonga
Wednesday 18 May

Ballarat
Thursday 28 April

Bendigo
Friday 29 April

Brisbane
Thursday 14 July

Cairns
Thursday 9 June

Far North Coast
Tuesday 17 May

Geelong
Monday 11 July

Gippsland
Tuesday 7 June

Gold Coast
Friday 3 June

Goulburn Valley
Thursday 19 May

Mackay
Wednesday 4 May

Melbourne
Wednesday 13 July

Mid-North Coast (Coffs Harbour)
Friday 29 April

Mid-North Coast (Port Macquarie)
Thursday 28 April

New England
Monday 2 May

Newcastle
Tuesday 21 June

Northern Territory
Thursday 23 June

Riverina
Tuesday 17 May

Rockhampton
Thursday 5 May

South Australia
Thursday 16 June

South East Melbourne
Wednesday 27 April

Sunraysia
Thursday 9 June

Sunshine Coast
Thursday 2 June

Sydney
Wednesday 20 July

Tasmania (Hobart)
Monday 6 June

Toowoomba/Darling Downs
Wednesday 18 May

Townsville
Tuesday 3 May

Western Australia
Wednesday 15 June

Western Division (Dubbo)
Tuesday 3 May

Western Division (Orange)
Wednesday 4 May

Wide Bay
Friday 6 May

Wollongong
Friday 22 July

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2016 FPA ROADSHOW

DELIVERING EXCELLENCE

For a superior client experience

Visiting 33 locations around Australia, this year's roadshow will update you on the latest legislative developments and provide you with practical guidance on delivering a superior client experience.

Open to FPA members and non-members, this free event offers you 2 CPD hours and an opportunity to network with peers.

Find out more at fpa.com.au/roadshow

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• 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: Alexandra Cain
M: +61 411 725 593
E: ali@alexandracain.com

Senior Content Strategist:
Andrew Mara
T: 02 9947 2339
E: andrew.mara@colloquial.com

Senior Journalist: Susi Banks
E: susibanks@gmail.com

Advertising: Peter Kalantzis
M: +61 417 355 808
E: fpmag@colloquial.com

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A promising future

I couldn't be more excited to begin my term as CEO of the FPA. Our professional community is thriving, and slowly but surely, we are transitioning to a respected profession.

The year ahead will undoubtedly bring regulatory challenges, particularly around the implementation and transition process for the new education requirements. I am very aware of the anxieties the current proposals create for some of you, and we will continue to work closely with the federal government to ensure our voice is heard.

Right now, it's business as usual at the FPA. Our focus, dedication and drive to secure the right outcomes remain the same. With so much uncertainty over the past months, my priority as the new CEO is to ensure you feel supported through the changes ahead. We will continue to do this through timely updates, practical resources, high quality events and webinars.

Open dialogue

As your CEO, I plan to bring a fresh approach to how we do things. One of the ways I will do this is to open the lines of communication, to ensure you have more channels to reach out and share your valued feedback. Your contribution and opinion matters a great deal, and we are listening. I'll share more details about this soon.

Speaking of feedback, I thank all members who completed the member satisfaction survey late last year – we had a record number of members respond and it was pleasing to see satisfaction across all areas increasing. Many of you are concerned with the cost of regulation and the impact this may have on business efficiency, so we will be supporting you where we can on this. We will also maintain our focus on building consumer trust, which remains a high priority and something I am personally passionate about.

National roadshow

We recently announced the dates of this year's FPA National Roadshow, kicking off on Wednesday 27 April. We look forward to bringing you a session that is valuable to you and your business, and we'll announce the agenda for the event soon. I will be attending as many locations as possible, and look forward to seeing many of you on the road. The dates can be found on page seven, make sure you pencil it in your calendar.

I couldn't begin my term as CEO without thanking Mark Rantall for his dedication and hard work over the past five years. Mark has been instrumental in driving the positive changes taking place in our profession and I look forward to building on his legacy. You can read an interview with Mark on page 24.

I hope you enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

It's business as usual at the FPA. Our focus, dedication and drive to secure the right outcomes remain the same.

FPA liaising with government on education requirements

The FPA is lobbying the federal government to amend draft legislation on the transition to higher education standards for financial planners.

The FPA has said it is supportive of the federal government's proposed higher educational standards for new financial planners, however states that some proposals are not workable for existing financial planners.

Dante De Gori said that the FPA is pushing for an amendment to the draft legislation regarding transition requirements for existing financial planners to be developed by the new independent standards body that will be created to oversee the education framework.

As part of this, the FPA is calling for the body to be allowed to consider a financial planner's existing training, qualifications, experience and continuing professional development (CPD). Forcing all existing financial planners to complete a bachelor degree is neither practical nor appropriate.

"This does not mean existing financial planners should not be required to do more. Some planners may need to complete further studies, others will be subject to a code of ethics for the first time. Under this, they will be required to complete an exam and there will be minimum CPD criteria for all.

"The bar is being raised, but it needs to be done sensibly. The consequence of this issue not being addressed would be a dramatic reduction in the number of financial planner numbers," Dante De Gori said.

The FPA submission praised the government for plans to enshrine the term financial planner/adviser as this would strengthen consumer protection and reinforce compliance to professional standards by ensuring only those who had achieved certain standards could use the title.

The FPA congratulates the following members

who have been admitted as CERTIFIED FINANCIAL PLANNER® practitioners.

ACT

Ishara Rupasinghe CFP®
Dixon Advisory

NSW

Craig Naylor CFP®
UniSuper Management Pty Ltd

QLD

Thomas Cotter CFP®
IPS Financial Services Pty Ltd

SA

Sarah McCarthy CFP®
AMP Financial Planning

VIC

Rohan Harrington CFP®
Industry Funds Services

Manoj Sharma CFP®
UniSuper Management Pty Ltd

Roberto Tappero CFP®
Shadforth Financial Group

Nga Vu CFP®
Kearney & Co

Life Risk Specialist® Program enhanced

The FPA's Life Risk Specialist® (LRS) program has been improved and extended for 2016 to offer program participants a thorough and comprehensive knowledge of this area of practice.

Now, the program covers a more extensive range of policy types, and delivers an in-depth exploration of the nuances of these policies. The new content is now fully aligned with the work financial planners undertake in this area and reflects some of the changes within the new Life Insurance Framework.

"The course provides a really practical approach, to complement the theoretical aspects of the program," says Diem La, FPA's content manager.

Diem explains there is a more comprehensive discussion around business insurance in the improved curriculum. Importantly, the course content now reflects upcoming and also emerging legislative trends in this area.

The LRS® program is designed to enhance the knowledge of financial planners working in the area of life insurance. It provides, through two distance education units, the opportunity to consolidate skills and improve knowledge.

FPA members can apply for the July 2016 intake from 1 June this year. To find out more about the program contact the Education team on 1300 337 301.

Dante De Gori **commences CEO tenure**

Dante De Gori CFP® stepped into the CEO role on 1 March 2016. Previously, he was general manager of policy and conduct, a role in which he was responsible for driving the FPA's policy and government relations.

Over the past five years, Dante has contributed on behalf of FPA members to parliamentary enquiries, government committees and Treasury working groups.

He has also led the formulation of numerous submissions to the federal government, Treasury and ASIC.

Having achieved CFP® professional status, Dante has an in-depth understanding of the complexities and challenges in financial planning. He replaces Mark Rantall, who made an outstanding contribution to the FPA during his tenure.

DANTE DE GORI

2016 FPA Roadshow dates announced

The 2016 FPA National Roadshow kicks off in Frankston, Victoria on Wednesday 27 April, before continuing to 33 locations around Australia.

The theme of the roadshow, which is being sponsored by Challenger for a second year, is "Delivering Excellence for a superior client experience."

At the event, delegates can expect an update on the changing legislative landscape, practical guidance on servicing clients and also hear from Challenger on aged care.

FPA CEO Dante De Gori said: "This year's event is about delivering the best possible outcomes for the client and we're working on some practical resources for this.

"We'll also provide an update on legislation, particularly the new education and professional standards, which is the area about which our members are most concerned right now. We thank Challenger for supporting our event a second time."

The roadshow is free to both FPA members and non-members and delegates attending the session will earn two CPD hours. Registration for each location opens in early March. For more information, visit www.fpa.com.au/roadshow.

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- Stirling Andersen
- Vanguard
- Watkins Coffey Martin
- Winston Capital Partners

For a list of upcoming FPA events in your local Chapter, go to

www.fpa.com.au/events/

UPCOMING **CHAPTER EVENTS**

MARCH

Friday 4 March
12:30pm – 6:30pm
Sydney Chapter Tennis Day

Wednesday 9 March
12:00pm – 2:00pm
Bendigo
Member Lunch Seminar

Friday 11 March
Ballarat
Chapter Golf Day

Friday 18 March
8:30pm - 11:30am
Far North Coast
Member Seminar

Friday 18 March
7:30 - 9:00am
South East Melbourne
Member Breakfast

Friday 18 March
12:15 - 2:00pm
South Australia
Member Lunch Seminar

Monday 21 March
Western Australia
Future2 Foundation Golf Day

Future2 Wheel Classic to roll into Perth

A chance remark and a half-joking challenge between fellow Future2 trustees back in 2010 has evolved into a flagship fundraiser, now planning a seventh challenge.

The Future2 Wheel Classic is an annual city-to-city cycle ride that sets a $100,000 fundraising target and invites financial planners and friends to a 1000 kilometre ride over seven to nine days.

All up, the Future2 Wheel Classic has raised more than $580,000 for the charitable foundation of the Financial Planning Association, after costs. The funds support kids in need through Future2 grants to community not-for-profits.

The 2016 Wheel Classic is set to spread its wings. For the first time, the ride will be in Western Australia and will follow a circular route, starting and finishing in Perth between 17-23 November.

As in 2014 and 2015, the Wheel Classic will arrive in Perth for the opening of the FPA Professionals Congress, where riders will be welcomed by hundreds of peers gathered for the profession's annual signature event, to take place between 23 and 25 November.

Keen WA-based cyclists are already signalling their interest. Endurance riders keen to test their mettle can register for the whole seven-day ride and raise at least $1,000. Most reach the higher $3,000 target and then have the option for a 50 per cent refund of registration fees, or to make a tax-deductible donation to Future2.

THE START OF THE 2015 WHEEL CLASSIC IN MANLY

To express interest in the ride, email info@future2foundation.org.au

Future super reform

Q: Do you agree that superannuation changes are needed in respect of the federal government's tax reform agenda in the lead up to an upcoming election? If so what changes would you recommend are made?

SUSIE ERRATT CFP®

Authorised Representative and
Credit Representative
Charter Financial Planning Limited AFSL
& Australian Credit Licensee

I am reluctant to agree to changes to superannuation. I agree with tax reform. The current laws have been in place for some time and have allowed people to set goals and strategy based on their retirement income needs. A lot of people approaching retirement in the next 15 years have not been the beneficiary of many government initiatives that currently exist, for example Family tax A or B, childcare subsidies or compulsory super.

They are also going to come up against pension payments being pushed out to 67. I think there is significant risk people won't save into their super if wholesale changes are made.

Governments always want to put their 'stamp' on issues. There is a lot of rhetoric but no long-term goals or objectives. Voters are not asked to rank what we think is most important and only get to decide once policy is settled.

I think there should be a major convention, backed by an Australia-wide survey about what the people think are priorities. I think everyone knows we have an aging population and the tax system is broken, but it is far more complex than raising GST and decreasing personal tax.

RODNEY LAVIN CFP®

Authorised Representative
Financial Wisdom Limited

There are upcoming changes to Centrelink's pension rules, starting 1 January 2017. As members will be aware, eligibility thresholds and asset tests are changing so that more people with lower asset values will receive a pension and fewer people with high asset values will receive a pension.

From my discussions with my clients, including relatively high net worth ones, there is an appreciation that these changes are fair.

But the community needs more certainty around super rules. Super is often someone's most substantial nest egg. Revisiting super laws every three years as an election issue is not fair. People need certainty around retirement planning.

DAVID NEWBERRY AFP®

Authorised Representative
Financial Wisdom Limited

I spend substantial time with mum and dad investors and what I find is that there are terrific advantages in the super system for high income earners, but no incentive for lower income Australians. In some cases lower income earners pay more tax on super than they do on their salary, which is really disappointing.

Schemes like co-contribution are aimed at low income earners. But in my experience the people who the scheme is aimed at can't afford to contribute. Instead it's used by high income earning families. The people who are earning $30,000 a year can't contribute extra into super; they are on the breadline.

There was a tax offset for super contributions made by low income earners, but this has been repealed. Ideally, the government would make changes to super to make it more attractive to low-income earners.

It's also disappointing low income earners are disengaged with their super. So more needs to be done to encourage them to pay more attention to their retirement savings.

Have your say. Join the debate on the FPA Members' LinkedIn Forum.

STEPHEN WAIT CFP®

Director - Sub Authorised Representative
The Farm Protectors

There needs to be some changes that can be managed within the federal government's tax reform agenda for superannuation leading up to the upcoming election.

The main consideration is how to get more people to build their superannuation and, in turn, reduce the pressure on age pension payments. One consideration is increasing the concessional thresholds to $100,000 a year, or even higher. This could provide the government with savings in age pension payments over the longer term. Keeping the current 15 per cent tax on earnings could produce revenue gains the government is looking for, as there would be more money in the super system earning income.

Another suggestion would be to increase the non-concessional thresholds to $250,000, and the "bring forward" amounts to $750,000 or even higher. This would add to the savings pool and create government revenue from the income tax on the earnings of a larger pool of funds.

The tax-free status of account based pensions should be maintained, as this provides for greater spending for retired people and allows for tax collection in other ways, as spending increases the GST income pool.

STEVEN O'DONOGHUE CFP®

Practice Manager - Brisbane Central/
West & North QLD
Suncorp Advice

There has been a lot of talk around potential changes to superannuation. There has been discussion about it not being a tax-free inheritance vehicle, about whether higher income earners should pay more or whether people need to be less reliant on welfare.

To me we are focusing on the wrong problem. There is already such a lack of engagement from Australians in their superannuation (and getting advice) and further tinkering with the system will do nothing to help this.

If the problem that is trying to be solved is how do we get more Australians to fund their own retirement rather than rely on the pension and make it a fairer system, then you need a system that encourages you to do so. Do anti detriment, TTR strategies, tax-free withdrawals really cause that much of an issue that changes are needed? In my view, we should only make changes that improve the system. The flat 15 per cent contribution tax does little for the average income earner so I think rather than tax all contributions at 15 per cent you need to tax contributions at marginal tax rates and provide a rebate.

However, use a rebate that would provide a significant benefit to lower and middle income earners and still provides a benefit across the board to higher income earners; don't make it worse than the current 15 per cent contribution rate. This will encourage Australians to put more in super due to the benefits and then leave the pension rules unchanged which further encourages Australians to leave their funds in a tax free state. The reduction in the asset test from next year and income deeming will reduce the reliance on welfare only if you encourage superannuation as the best vehicle for your retirement needs.

That said, any changes I believe are already *à fait accompli* and the real issue has been overlooked. It is about engagement and getting Australians to see the value of advice and getting access to a financial planner. The changes I think need to be made would be to make financial advice fees tax deductible and ensuring superannuation advice fees could be debited from all products so all Australians have the ability to get advice on their super, paid from their super fund from an adviser of their choosing.

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.

In the client's best interest

FPA CERTIFIED FINANCIAL PLANNER PROFESSIONAL® of the Year for 2015 Christopher Smith shares his insights into the case study that helped him win the award.

It's easy to see why Christopher Smith from VISIS Private Wealth took out the award for the FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year for 2015. His careful consideration of the clients' needs, featured in the case study below, shows his skill in ensuring his clients' wealth is structured in the best possible way.

As Smith notes, his brief was to respond to a complex series of decisions that led to his clients being placed in inappropriate structures that meant their portfolio was not constructed with overall tax effectiveness in mind.

"They had decided to buy an owner occupied residential property in Queensland, which they could afford because their business was doing well. They borrowed the full amount for the property, leaving them with a substantial and non-tax deductible debt," says Smith.

"They didn't know how to get out of this situation without selling some assets and potentially incurring tax liabilities as a result," he explains.

The clients' overall goal was to prepare for a transition to retirement and to retire in a comfortable manner.

Says Smith: "Their objective was to look after their grandchildren's education and ensure there was a succession plan in place for their business so they could realise some value from it. They required an income of $200,000 a year in retirement and they needed sufficient capital to cover this."

The client was a couple in their 60s with a successful management consulting business. While they had tried to implement an appropriate investment strategy, they lacked the right expertise to structure their affairs in the most beneficial way possible. Thanks to Smith's advice, the clients are now far better off than if they had followed their previous strategy.

> My advice centred on providing clear financial advice on achieving the clients' stated goals.

"My advice centred on providing clear financial advice on achieving the clients' stated goals and objectives by working out the details of their short-, medium- and long-term financial objectives, along with overcoming the key challenges and issues they were facing," says Smith.

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"I developed a 'current state baseline' including a consolidated balance sheet and comprehensive cash flow analysis encompassing all of the entities the clients control. I conducted a consultative visualisation exercise to determine what their retirement lifestyle and associated cost of living would look like to work out their financial independence objective. Finally, I identified the key challenges they were facing including a high level of non-deductible personal debt arising from the purchase of their new family home, a complex tax situation resulting from Division 7A loan issues within their company and uncertainty around how to grow their personal wealth outside their company, in the event the consulting company cannot be sold for any value in the future," says Smith.

They are also negatively impacted by tax partially because they have a negatively geared investment strategy within their investment trust, whereby losses cannot be distributed and are unable to be offset by directing income to the trust.

"I concentrated on providing strategic advice concerning the corporate restructure, ownership of the commercial investment property, financing recommendations and cash flow management," says Smith.

Summary of recommendations:

- Use the investment trust to own the shares in the business.
- Restructure debt facilities within the trust to borrow 100 per cent of purchase price of the shares.
- Establish a custodial trust arrangement and limited recourse borrowing arrangement (LRBA) loan to purchase the commercial property from the clients.
- Sell the property to the SMSF.
- Apply CGT concessions and use sufficient proceeds to extinguish non-deductible debt.
- Direct the balance of proceeds to the SMSF under the lifetime cap and non-concessional contributions limits.
- Commence tax free pensions.
- Draw sufficient income from SMSF to fund lifestyle expenses and support investment strategies.
- Distribute discretionary income to children to fund grandchildren's school fees.

The clients explained they had recently sold several properties and purchased a new home. After the restructure they were left with a substantial non-deductible debt of around $1.68 million. They had released capital from the asset sales however they had a large personal tax liability stemming from non-cash dividends paid out to them from their trading company to extinguish the Division 7a loans.

"I identified that the non-deductible debt was a significant obstacle to an accelerated wealth creation plan due to the post tax costs of paying interest and reducing principle over time. Until we could overcome this challenge the financial plan was likely to stagnate," says Smith.

"I investigated the possibility of selling the commercial property in Brisbane to their SMSF. This property was always used in their business and is therefore an active asset. My conclusion was that they were in fact eligible for small business concessions due to meeting both the company value and turnover tests. So my first recommendation was to establish an LRBA loan arrangement via the SMSF to purchase the commercial property. They received almost $600,000 with no CGT payable on the sale. This capital was to be used to pay off non-deductible debt immediately. Furthermore, the company could now pay the SMSF a significant commercial rental income and claim a tax deduction for the expense at the company level," Smith explains.

> The clients' overall goal was to prepare for a transition to retirement and to retire in a comfortable manner.

He also explored other potential strategies when investigating the issues and while confirming their eligibility for small business concessions.

"To position the company for a future succession planning sale, I considered the potential restructure of the ownership in

the consulting company held in their personal names. I specifically modelled the disposal of the shares in the company to their investment trust. The transfer/sale of these shares in their own names to their investment trust allows for dividends to be paid to the trust to be ultimately distributed in a discretionary fashion," says Smith. This overcomes tax leakage, one of the key inhibitors of their wealth creation strategy.

> I developed a 'current state baseline' including a consolidated balance sheet and comprehensive cash flow analysis encompassing all of the entities the clients control.

"My proposal was for the investment trust to borrow sufficient funds to purchase the clients' shares. As the sale of the shares is a CGT event they will be assessed as capital gains in their personal names. However, I contend that the shares in a personal company are a CGT asset, due to the sale of the goodwill. and therefore the client qualifies for small business concessions. Further, I recommended selling the shares and not the business, as the sale of shares is not assessable for stamp duty," Smith says.

His recommendation was to confirm this approach with the clients' business accountant prior to taking action. "The outcome of the proposal was to set aside the CGT and receive a benefit of $1,600,000 that would be used to extinguish the non-deductible home loan. The balance of the capital proceeds can be paid into the SMSF under the lifetime cap."

Following the transfer of the property and the contribution of the small business proceeds under the lifetime cap, Smith recommended evaluating the SMSF account components and either rolling back the current pension and resetting pensions, converting the entire fund to pension or alternatively commencing a new pension with the new contributions. This allowed the clients to commence tax free income payments from the fund, saving them taxable income on the rent that they would have otherwise received in their name.

With regards to cash flow management and distributions of profit, one of the key benefits of the restructure is that the clients are now able to distribute corporate profits via dividends payable to their investment trust. This strategy allows the clients to benefit from using the cash flow losses previously caught within the trust to offset taxable income, as well as providing flexibility for tax planning, giving rise to the streaming of income to their children that will ultimately benefit their grandchildren, one of their stated objectives.

"The outcome of this advice is that they will have a more appropriately structured balance sheet of assets across their entities with a much better net income result due to tax efficiencies gained from the restructure. This will provide for a solid foundation from which to initiate the next stage of wealth creation in the time they have described," says Smith.

As a result of his advice the clients have significantly increased the financial value of their after tax cash flow and have paid off their non-deductible loan.

"Our modelling indicates there is a financial benefit of $1,238,098 generated from net interest savings on $1,600,000 over a typical loan period of 25 years at an assumed five per cent interest rate. They have also recovered $35,818 in cash flow losses caught and carried forward within the trust essentially saving $17,550 in additional tax payable annually," says Smith.

After the sale of the investment property to the SMSF, rent is now paid to a tax-free entity, allowing for a tax deduction at the company level while ensuring this income is tax exempt at the SMSF. The benefit of this is that they have reduced their taxable income by $92,556 which is a tax saving of $45,352.

The clients' projected net wealth value, excluding the value of the shares in the consulting business, is forecast to be approximately $5.9 million at age 75. This exceeds their stated financial objective of $5.2 million and ensures they can meet their retirement income objectives.

Michael's advice is to never underestimate how powerful a choice based on happiness can be.

Making clients' dreams come true

Everyone fantasises about what they would do if they won the lottery. When it happens, a client's first call should be to their financial planner, writes **Alexandra Cain**.

After faithfully buying tickets over many years, can you imagine actually winning the lottery? While it sounds ideal, it can be a very stressful time, especially if the client has not previously experienced a windfall.

At times like this, it pays to have a sound relationship with a trusted, experienced financial planner. While robo advice does have its uses, a lottery win is one of the times when advice from a human trumps advice from a piece of software.

This is the situation in which FPA member and CERTIFIED FINANCIAL PLANNER® professional Eleni Michael found herself last year. One morning she received an unexpected call on her mobile at 6.00 am.

"It was a client and clients don't generally ring at 6.00 am unless something bad has happened. So I immediately wondered whether her husband had passed away or if there had been a major trauma in the family," explains Michael. Luckily in this instance the client was not ringing with bad news.

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Michael answered the phone to her client Sarah, whose voice was audibly shaking when she picked up the call. "She said, 'Eleni, can we see you today? Our circumstances have changed dramatically over the weekend and we need your advice'," explains Michael.

"As you can imagine, I nervously asked: 'Can you tell me what's happened?' To my surprise the client told me they had just won first prize in a lottery and they were now $1.5 million richer," she adds.

But the kicker was that the prize was in the form of a property. The client had a choice as to whether to take a property on the Sunshine Coast or a property in Melbourne and they were undecided as to the right path to take.

"So I went out and saw them that morning. Our conversation focused on what they were looking for from the property. They wanted to keep the property, but saw it as an opportunity to build wealth. They had always wanted to build a granny flat for Sarah's parents as they were getting older, and they saw this as a great chance to do this. So the rental income was important because this would be used to service the loan for the granny flat," says Michael.

"After I left them, I spent considerable time sourcing property reports and speaking to agents in both areas. What came out was that they were very different properties," she notes.

Michael's research uncovered that both properties had good capital growth prospects. But what became glaringly obvious from the research was the fact that the Melbourne property was much easier to rent. Additionally, it was in an affluent market so the income was likely to be higher than the income the Sunshine Coast property could hope to produce.

"I reported back on my research to the client the following day. I was quite excited because I believed that I had come up with the perfect solution. I presented my clients with my findings and my conclusion that the Melbourne property may be a better option for them in terms of their long term goals," says Michael.

"I looked up at them, and it was honestly as though what I said had ripped their hearts out. At that point I knew they wanted to choose the Sunshine Coast property. So I needed to understand why they had made this choice," she says.

John and Sarah called me that day because they wanted personal advice from a trusted source.

What is **robo advice?**

Robo advice involves an algorithm or piece of software providing automated financial advice, based on a set of variables provided by the client, such as age, investment goals, investment timeframe and age to retirement.

At this stage, most robo advice programs are not able to take into account variables such as the unique tax situation of the client or their estate planning requirements. As such the role of the adviser to provide strategic advice, taking into account the personal circumstances of the client, remains unchallenged.

Robo advice is sometimes used by clients with simple needs and with modest wealth to invest. Some financial planners augment the personal advice they deliver to clients with recommendations produced by robo advisers.

What transpired was that at the same time as Michael did her research, the clients had gone and physically seen the Sunshine Coast property – and they fell head over heels in love with it.

"They pictured living out their retirement years in that home and they had also imagined having family holidays there when it wasn't being rented. I explained to them, that while Melbourne was perfect on paper, the Sunshine Coast property is now a better fit for their retirement strategy, which still makes this a perfectly acceptable choice. Above all, they are still $1.5 million better off than they were before winning the property," says Michael.

"All the client needed to do was understand the drawbacks in terms of ongoing income of this property over the Melbourne property, and make sure that their future strategy took this into account. I gave them the confidence to choose the property they really wanted," she says.

Michael says it may have been a very different situation had the client not already had a relationship with her and instead had relied on robo advice.

"The big difference here is that no one would have been there to see their faces when the recommendation to purchase the Melbourne property was presented. There would have been no-one for the client to talk to, no-one to settle their nerves, as well as no-one to ease their anxiety and genuinely fully understand their wants and needs," says Michael.

Robo advice won't replace us. It has no empathy. It can't distinguish between a technically correct solution and an emotionally correct solution.

"They might have received perfectly sound advice. But if they had used robo advice, would they have ended up buying the property that made them happy and that they really wanted?" she questioned.

Michael's advice is never to underestimate how powerful a choice based on happiness can be. "If a client likes a strategy they will stick to it. And if they stick to it they will get long term results."

In fact, a consideration about the impact robo advice is likely to have on the industry was an important part of the due diligence process when Michael purchased her practice.

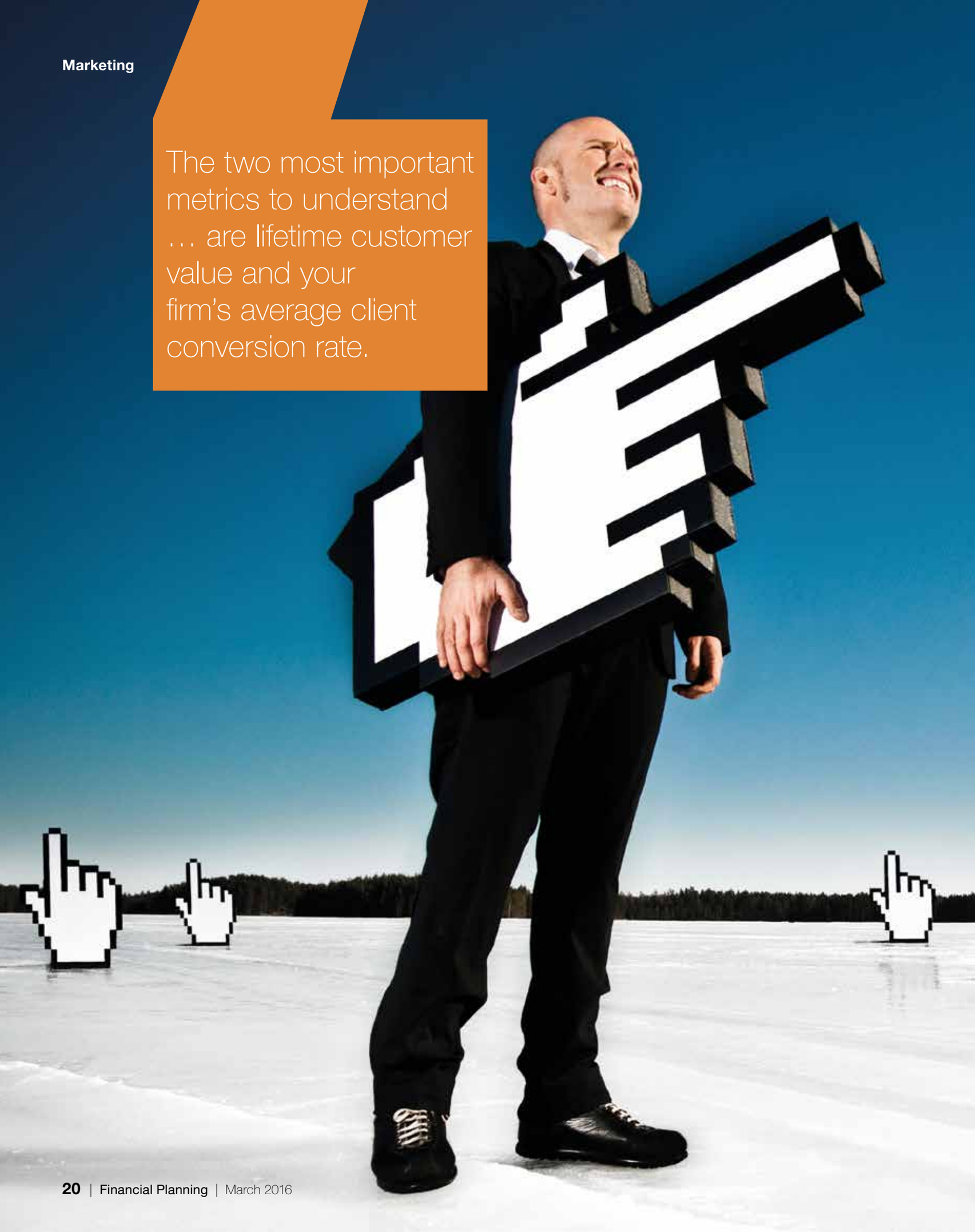
"I bought into a business six months ago, and before handing over the cheque I considered whether robo advice was going to make our profession obsolete. But business is all about relationships. John and Sarah called me that day because they wanted personal advice from a trusted source," says Michael.

"I'm not so naïve as to think robo advice isn't coming. But its long-term place in our profession can only ever be to enhance our offering and improve our efficiency. A robo adviser can't explain to John and Sarah that the Sunshine Coast property is the better option for them because it's what's going to make them happy – and that is still a sound reason to make a decision," she notes.

Says Michael: "Robo advice won't replace us. It has no empathy. It can't distinguish between a technically correct solution and an emotionally correct solution. As long as our clients continue to make emotional decisions, our profession has a bright future."

Any advice in this article is of a general nature only and has not been tailored to your personal circumstances. Please seek personal advice prior to acting on this information.

The two most important metrics to understand … are lifetime customer value and your firm's average client conversion rate.



Cost-effective ways to win new clients

How can technology and digital marketing be used to attract new clients?

By Susi Banks

There is no get rich quick formula when it comes to generating more business and winning new clients. Rather, as marketing costs are considerable, marketing for financial planners needs to be measurable and results-oriented.

Personal recommendations still account for much of the new business obtained by planners, but website content, blogging and social media also play an important role in cementing prospects. Given consumers research anything and everything via the internet, an engaging and informative website is vital. As such, no matter how technologically advanced we become, "word-of-mouth" never goes out of style.

Although social media is instant, the paradox is that most businesses need to play the long game when it comes to using social media to win new clients. The idea is to build a presence, attract followers, be seen as an authority and gain media coverage.

Tim Farr, director of Midpoint Wealth Management and founder of the Entrepreneur Accelerator Program says companies need to have a clear and concise marketing plan. Farr says not having a game plan can result in poor outcomes and considerable expense. He says the first thing to focus on is the target market.

You can't be everything to everyone

Farr says most financial planning firms are generalists or have capacity to provide multiple services to multiple markets. "However, 'We do everything for everyone', is not an effective marketing message and will yield poor results. Instead choose a single target market and focus on building an offer and the message for just that segment."

He says a good marketing plan considers the problems of the target market and how to solve them. "Where do they live? What car do they drive? What platform does your target use? If your target is executives LinkedIn might be best whereas Facebook may be more appropriate for Generation X or Y."

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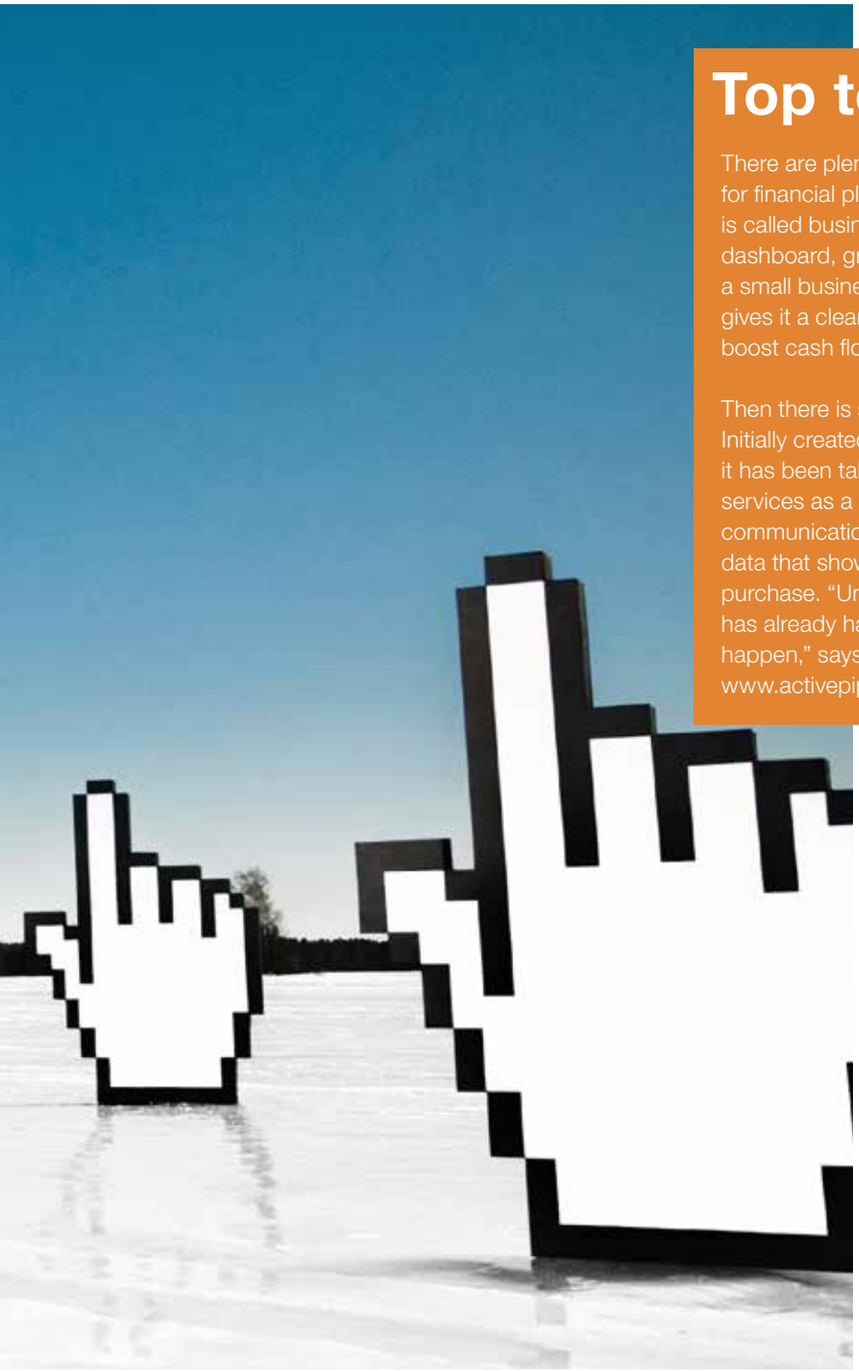


Top tech tools

There are plenty of great new tools available for financial planners. One new Australian app is called businest. As opposed to just being a dashboard, graphs and KPIs, this app shows a small business where it has gone wrong and gives it a clear roadmap to fix the issues and boost cash flow quickly. www.businest.com

Then there is software called ActivePipe. Initially created for the real estate industry, it has been taken up by many in financial services as a marketing tool. It automates email communication to clients and has predictive data that shows if a customer is likely to make a purchase. "Unlike CRM systems that reflect what has already happened, this predicts what will happen," says ActivePipe CEO Ashley Farrugia. www.activepipe.com

Continued from page 21

Farr recommends email marketing. He says it consistently outperforms other social media platforms as it is universal. So planners need to ensure their marketing database is accurate to allow the business to conduct ongoing communication directly with prospects and clients.

Darren Veerapa, managing director of digital marketing agency SMResearch in Melbourne says the majority of his business is marketing for planners. He says to get started in social media marketing, planners should start using LinkedIn. He also recommends using Facebook pay-per-click advertising.

Veerapa warns against targeting accountants as referral partners. They are saturated with planner requests for meetings. As an alternative he says it is relatively easy to establish cross-referral situations with businesses such as affluent restaurant owners.

Discipline is crucial

Veerapa recommends putting together a 21-day marketing plan and spending one hour every day on it, ideally in the morning. This time should be spent locating referral partners on LinkedIn and following up sales leads. The idea is to make it a habit.

Sydney-based Robert Coorey, best-selling author of marketing book *Feed a Starving Crowd* says to get started winning new business using digital marketing, the planner should get some metrics on their target audience.

"Facebook and Google allow you to upload your customer list into their system and they will tell you the demographics and interests of your current customer base," he advises.

Planners are able to understand the location of their client base, age and sex, as well as their interests. "Now when we go out to run ads we can laser-focus the targeting and only show ads to the right demographic and interest sets," he says.

Coorey says it's important to have an allocated monthly advertising budget and an expectation of how many leads that budget will get. For example, if you allocated $5000 per month and on average you acquire a lead for $100, you can expect 50 leads a month into your practice.

Susan Bryant, a financial planner for 26 years, specialises in helping farming families transfer assets and family values from one generation to the next, through her company, Seeds of Advice. Bryant, who is based in Brisbane but has clients from western Queensland to Dubbo, says that although clients don't always have good access to the internet she still does conduct meetings by Skype.

She says her social media plan is mainly centred around Facebook, but Twitter also plays a big part. "My farmers are often on Twitter after dinner in the evenings," says Bryant. "I use LinkedIn and Twitter mainly to connect with partners with whom I can build a relationship to grow

both our businesses. I connect with agricultural consultants, rural real estate agents and rural accountants using several platforms," she says.

Traps to avoid

Experts recommend planners avoid having a plain vanilla offering that doesn't differentiate the business or blatantly copies competitors' tactics.

Also try not to start a Facebook page and make some posts, and think that's all you'll need to do to get traction. "Facebook pages organically reach only 16 per cent of a business's fans on average, and in most cases it's even less," says Robert Coorey.

Even worse is not doing any online marketing at all, hoping for business to come to you. As a leading Australian business coach, lawyer and chartered accountant, Melbourne-based Rhondalynn Korolak has helped thousands of businesses, through her company Imagineering Unlimited and her software program, Businest. She says the same traps apply to both digital and offline marketing.

"It's about the impact and effectiveness of your message. If your message is lame, then no one is going to read it, regardless of where they see it," says Korolak. "People are bombarded by thousands of messages every day. To stand out, get noticed and be remembered, your message needs to be unique and it needs to clearly identify the pain of your audience and prove that you can cure it."

ROI is a numbers game

Tim Farr says it's crucial to understand the data. "The two most important metrics to understand … are lifetime customer value and your firm's average client conversion rate."

He says lifetime customer value enables the business to determine the frequency and the revenue each engaged client or transaction brings to the firm. "Only then can you establish how much you can afford to invest to acquire each new client, while remaining profitable," he says.

The client conversion rate metric is calculated by looking at the percentage of appointments that resulted in a paid engagement. When business owners understand this metric they can better estimate the return on investment (ROI) the campaign might achieve, based on the expected number of appointments. The campaign should expect to achieve a certain number of new client appointments and expect to convert 30 per cent of them to a paid client. If the client conversion rate is less than 30 per cent it's a sign the business should review its meetings and sales progress.

Korolak says ROI is much easier to measure for online activity than for non-digital campaigns. "We can use unique URLs, tracking codes and cookies to do the heavy lifting. Surprisingly, less than 20 per cent of financial advisers take advantage of these tools, which is crazy because it means they really don't know what is working and what isn't," she says.

"Even if you are not tech savvy you can easily get the info you need to measure ROI by managing your campaigns carefully, by sending messages out to different databases on different dates and using unique URLs. For more sophisticated users, we can use tracking software, retargeting and Google analytics."

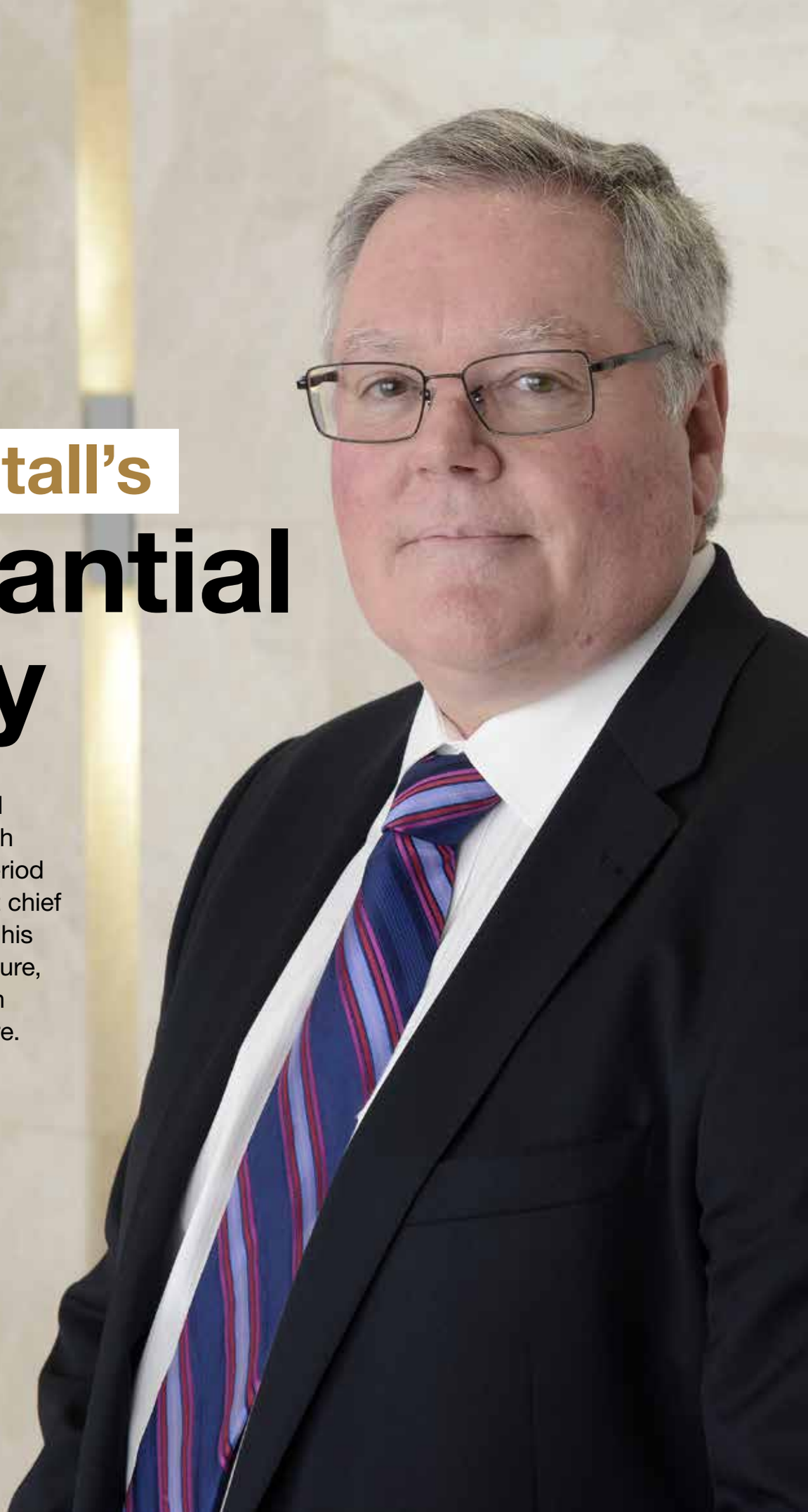
Marketing requires a commitment of the firm's principals to make a fundamental shift from compliance to communication.

Coorey says to manage ROI it's important to meticulously track each advertising method, how much was spent on it and how many leads it generated. "It could be as simple as a basic spreadsheet that is updated daily by your assistant," he says.

As Farr notes: "marketing requires a commitment of the firm's principals to make a fundamental shift from compliance to communication."

He says before starting a marketing campaign, carefully consider the business model to ensure it is scalable and profitable. Good marketing has great potential to not only amplify profits but also inefficiencies in operations, as the business strives to deal with increased volume and demand produced by marketing activities.

"Ask yourself whether you and your team can manage significant growth and what number of new clients you can handle before it impacts quality of service," he says.



Mark Rantall's substantial legacy

Having steered the Financial Planning Association through possibly the most critical period in its history, its most recent chief executive officer reflects on his achievements during his tenure, the role of financial advice in the community and his future. **Alexandra Cain** reports.

It's safe to say the Financial Planning Association has been completely transformed in the five-and-a-half years during which Mark Rantall has been at the helm.

During that time the FPA has gone from being an industry body to a well-respected professional association for financial planners. At the same time, there has been a shake-up of the sector that has created a completely different dynamic within the advice realm. Moreover, the FPA's business model has changed from allowing corporate membership to an individual membership structure only, one of the most important transitions in its history.

Concurrently, membership requirements have been strengthened and extended. In addition, considerable work has been done to enhance the perception of financial planners in the community. This has created a firm foundation for the association's future.

Given this backdrop, we asked Mark Rantall to reflect on his time at the FPA, as well as his plans for the future.

The ability of the population to access appropriate financial advice is important for the financial health of all Australians. Asked about the role of financial planners in the community, Rantall noted that one of their most important skills is giving their clients peace of mind that when they do leave work for the last time, they will be able to live comfortably.

"People's comfort levels with retirement and reduced anxiety are increased by 20 per cent if they receive advice," notes Rantall. To back up this argument, he also notes FPA research has found 52 per cent of Australians don't feel they have enough to retire on and 30 per cent of the population think retirement is too far away to worry about," says Rantall.

"But if you have a financial plan that is documented, with goals and objectives, your level of comfort will increase dramatically, as will the execution of the plan through ongoing advice," she says.

"Good financial advice is a matter of national importance. It gives Australians a degree of comfort about their life goals and peace of mind that they are on track to achieve their financial goals."

Early wins

Asked about his most memorable story during his tenure with the FPA, Rantall points to the decision early on to switch from corporate and individual membership to an individual only membership structure.

"We wanted to evolve the FPA into a respected profession and change the constitution to be practitioner-based. This meant we had to remove the corporate membership category. To achieve this, along with Matthew Rowe, who was then the chair of the FPA, we covered 32,000 kilometres in five weeks across 30 events," says Rantall.

He says it was a really great team effort, which involved travel to some reasonably remote locations, right around the country.

"We needed a 75 per cent majority vote and in the end we got 95 per cent. My team gave the chairman and I a rock star award

> A better financial future for all Australians is critically important; we really have a duty to act in the public interest.

Continues on page 26

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that I still display. It was a very memorable time," he explains.

Rock star award notwithstanding, Rantall says one of his most important contributions to the FPA was delivering a clear vision: through our members, we stand with Australians for a better financial future.

"A better financial future for all Australians is critically important; we really have a duty to act in the public interest. We must also lift adviser education standards for the benefit of clients and give our members a clear purpose," he says.

People's comfort levels with retirement are increased by 20 per cent if they receive advice.

Developing a clear strategy to execute the vision was one of Rantall's central goals during his time at the FPA. To this end, one of the main tasks has been the development of a white paper that outlined the future of the financial planning profession. The *FPA 10 Point Plan* was a clear path to higher education and better professional standards for financial planners.

"We were able to achieve eight of the 10 points through regulation or legislation," explains Rantall, who notes the document established a framework for the future professionalism of the industry. He says his aim was to leave as a legacy a strong, viable organisation, with a good reputation.

"As the new CEO, Dante De Gori will build on that framework and help craft the strategy for the next five to ten years. Further work also needs to be done to implement the existing strategy," he says.

This includes legislation to underpin higher education standards. Says Rantall: "A lot of work is being done in the industry to help members reach those standards and transition education to the new framework."

Asked about what he things the financial planning profession will look like in five years, Rantall says the industry needs to continue focusing on lifting education and advice standards. "Degree-qualified practitioners will lift education standards from the RG146. Ensuring all practitioners sign up to appropriate codes of ethics is also important. FPA members are already there, but what's required is a lift across the entire industry. The best financial planners already do this, but work also needs to be done to ensure all advisers are putting clients' interests first."

Rantall says the profession should be focused on three main goals right now:

1. Develop the right culture and promote a profession that is fully focused on acting in the best interest of clients.
2. Support, promote and sponsor ongoing education and ethical training of advisers.
3. Ensure vigilance around the separation of product and advice. This requires a suitable corporate governance structure, and compliance standards that prioritise advice.

As for Rantall's counsel for young practitioners, he says all financial planners must be members of a recognised professional association. This will help the community recognise financial planners who have signed up to higher standards and respect them for the great work they do to help their clients achieve better financial outcomes.

"Have an ongoing commitment to education and improving your skills and remember to prioritise the interest of clients at all times," Rantall says.

Having completed his tenure with the FPA, Rantall is now focused on the next stage of his career. He wants to stay close to the advice profession and remain a director of the FPA. He is also actively looking for more board seats, and also wants to spend more time with his family.

"I have had an incredible five and half years with the FPA. It has been a remarkable team effort, which has produced great results. I'm so proud that we have been able to do such fantastic work which has delivered such an outstanding result for the organisation," he says.

Connecting with consumers online

FPA's brand new website helps Australians communicate more easily with financial planners, explains Alexandra Cain.

Online sources[1] are only second to family and friends when it comes to consumers seeking financial advice, a key reason why the FPA has recently launched a brand new website.

The new website combines two previous sites into one and offers both members and consumers a more streamlined user experience. For members, the new website offers simple navigation to the latest information on policy initiatives and advocacy work, continuing professional development, events and FPA news.

"We have revamped the look and feel of the site and there's now also a clearer pathway for consumers to find out about financial planning and find a planner," says Fosca Pacitto, FPA head of marketing.

"The new website was designed with mobile in mind, so that it can be accessed on desktop and laptop computers, as well as on mobile devices such as tablets and smart phones. In today's world, we consume media on different devices throughout the day. Our website needed to respond to these diverse needs," she adds.

Another major enhancement to the site is the improved 'Find a Planner' functionality, which now allows consumers to search for, and directly contact, a local financial planner through new 'Send a Message' functionality.

The upgrade also enables FPA members to upload a photo to their profile, to help create a human connection with the consumer.

All CFP® Professional and Financial Planner AFP® members are strongly encouraged to ensure their Find a Planner profile is complete, and upload a professional photo.

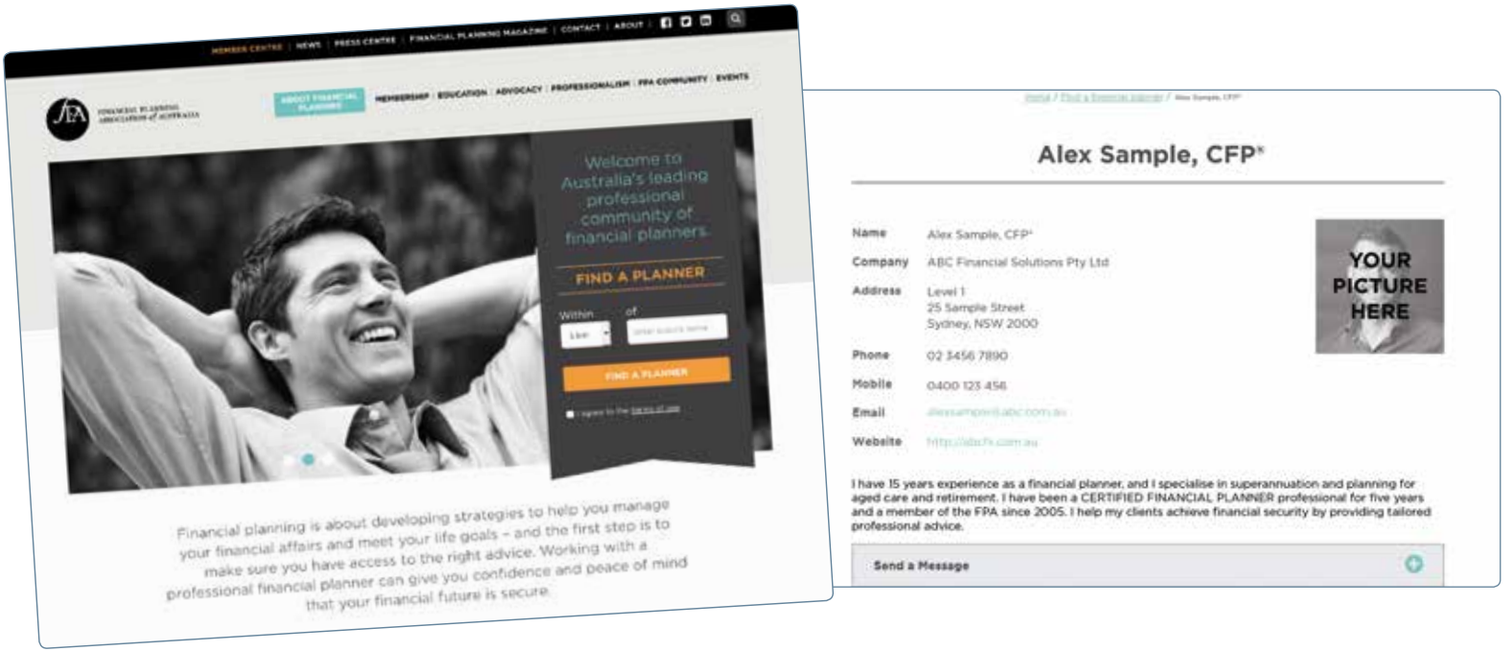
"It's really important member profiles convey the message you want to communicate to prospective clients. A more personalised profile will create more interest, and ultimately lead to more enquiries." Pacitto adds.

The FPA has developed a 'how to' guide to help members update their Find a Planner profile. The guide is accessible in the Member Centre.

Fosca Pacitto, FPA head of marketing

Footnotes

1. Investment Trends 2014 Advice & Limited Advice Report



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

MARTIN BRECKON
IOOF HOLDINGS

This article is worth
0.50 CPD POINTS
CRITICAL THINKING

Includes
- Rules for claiming tax deductions on super contributions.
- A worked example.
- Details on the ATO's requirements.

Claiming contribution tax deductions on superannuation

It's never too early to consider end of financial year issues. After all, it always pays to pay attention to detail, particularly for individual fund members who are eligible to claim tax deductions for personal contributions.

This may be the case for clients who think they are self-employed, where in fact they are incorporated. What is assumed to be a personal deductible contribution is in fact an employer contribution. Historically each year quite a number of clients have had double counted contributions.

Then there are clients who are eligible to make deductible personal contributions but they (and/or their advisers) do not appreciate the requirements must be done in the right order, at the right time in the right way. That is, there are no shortcuts as compliance with tax law is strictly prescribed.

For a client to claim a deduction for personal contributions they must give the super fund a valid notice of their intent to claim a deduction and in turn receive the appropriate acknowledgement from the superannuation fund – all within a specified timeframe.

Problems can arise when the client or their adviser assume a hand written note on the form accompanying the contribution, for example an application for membership form, is sufficient to alter personal contributions to concessional contributions.

Few understand, in these instances, all personal contributions will remain in the member's tax-free component contribution segment until the fund receives the valid and approved forms.

Most guidance publicly available is usually couched in the terms of both being 'valid' and 'approved'. But what do these terms actually mean?

What is valid and what is approved?

Being valid implies something is legally binding due to having been executed in compliance with the law and being able to be officially accepted. In this instance the notice, once accepted, is assumed to be binding on the superannuation fund trustee.

Approved means in a form approved. This could also encompass content, format and medium, by the relevant regulator and most probably by the superannuation fund trustee to be acceptable for execution. But bear in mind a superannuation fund's governing rules can be more severe than the law. The approved form may also be inclusive of an approved procedure.

The tax office and many superannuation funds emphasise the words 'in the approved form', and also within the stipulated timeframes.

So what do we have to do to comply with the *Income Tax Assessment Act 1997 (ITAA97)* requirements?

Hurdle 1. Is the client eligible to claim the relevant tax deduction? There are a number of conditions which must be satisfied to be eligible to claim a deduction. The effect of these conditions is that an individual who is an employee is unlikely to be allowed a tax deduction for personal super contributions.

For a fund member to be eligible to claim a deduction in the relevant financial year, then:
- The member must have made personal contributions to a complying super fund or to an retirement savings account (RSA).
- The member's earnings as an employee must be less than the maximum allowed (ie, they meet the 10 per cent rule requirements).
- The member must meet the relevant age-related conditions.
- The member has given the relevant superannuation fund a valid notice advising the amount intended to claim as a deduction, in the approved form, and within the time limits specified.

- The superannuation fund has acknowledged the member's notice of intent to claim a deduction.

What are the time limits specified?
It varies slightly depending on whether it is an intent to claim a tax deduction or an intent to vary a previous intent to claim. As the Australian Tax Office (ATO) states:

Intent to claim:
You must give a notice of intent to claim a deduction to your super fund on or before whichever of the following days occurs earliest – either:

- The day you lodge your income tax return for the year in which the contributions were made.
- The last day of the income year after the income year in which you made the contributions.

Intent to vary:
You can apply to vary a previous valid notice of intent (to claim) if:

- You have not yet lodged your income tax return and it is on or before 30 June in the financial year following the year you made the contribution, or
- The ATO has disallowed your claim for a deduction and you are applying to reduce the amount claimed as a deduction by the amount that the ATO has disallowed.

Hurdle 2. The super fund has to ascertain whether it can accept an intention to claim a deduction. That is, ensure it is valid from a fund perspective.

Your client can give a valid notice to the superannuation fund if all of the following apply:

- They are still a member of that super fund.
- The superannuation fund trustee still holds the contribution(s) being claimed.
- The notice does not include all or a part of an amount covered by a previous notice.
- The trustee has not begun to pay a superannuation income stream based in whole or in part on the contribution.
- You have not lodged an application (which hasn't yet been dealt with by the fund) to split the contribution for which you intend to claim a deduction.

What is meant by 'the superannuation fund trustee still holds the contribution'?
This is particularly important if your client has elected to do automatic rollovers to another superannuation fund where they hold standalone life insurance policies in superannuation.

Special rules apply for full or partial voluntary rollovers, for situations where there has been a successor fund transfer or a MySuper transfer.

If you have chosen to rollover or withdraw a part of your super account held by your fund before lodging the intention to claim then a valid notice of intent cannot be given for the entire contribution.

The proportioning rule applies and part of the rollover will consist of a tax-free proportion.

Furthermore part of the tax-free component will include an appropriate proportion of the new contributions that were intended to be deductible contributions.

This is explained in ATO Taxation Ruling TR 2010/1 which states:

71. A superannuation provider will no longer hold a contribution, or at least a part of it, if the member has chosen to roll over or withdraw a part of the superannuation interest held by the provider. In such a case, a deduction notice cannot be given for the entire contribution. A valid deduction notice will be limited to a proportion of the tax-free component of the superannuation interest that remains after the roll over or withdrawal. That proportion is the value of the relevant contribution divided by the tax-free component of the superannuation interest immediately before the roll over or withdrawal.

Naturally this is compounded when multiple rollovers or withdrawals occur. This can best be describe within a case study from Taxation Ruling TR 2010/1 (see below).

This example assumes no investment earnings or administration fees. All calculations have been rounded to the nearest dollar.

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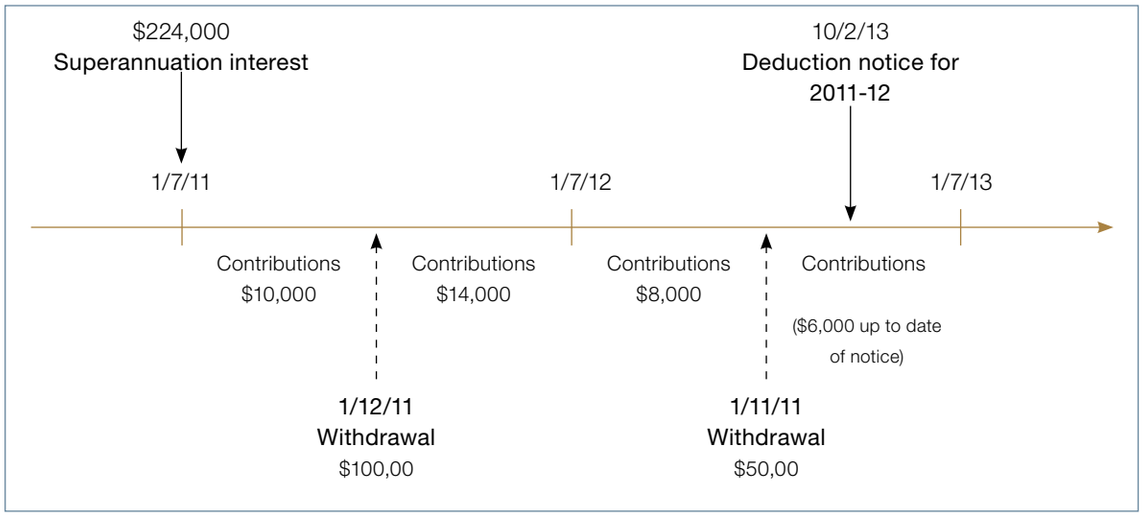
GRAPH: VALID NOTICE OF INTENTION TO DEDUCT - MULTIPLE WITHDRAWALS



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On 1 July 2011 Mark had a superannuation interest valued at $224,000 including a tax-free component of $74,000. Mark pays superannuation contributions of $2,000 on the twentieth day of each month.

First withdrawal

On 1 December 2011 Mark withdraws $100,000. Prior to the withdrawal Mark's account balance was $234,000 including a tax-free component of $84,000 ($74,000 plus $10,000 in contributions). The balance after withdrawal is $134,000 including a tax-free component of $48,103.

The withdrawal affects the amount Mark can include in a valid deduction notice for the contributions made from 1 July 2011 until the withdrawal (1 December 2011) as only a proportion of these contributions are still held by the fund. The proportion of the $10,000 in contributions still held by the fund is:

$$\text{Tax free component of remaining interest} \times \frac{\text{Contributions}}{\text{Tax free component of interest before withdrawal}}$$

$$\$48{,}103 \times \frac{\$\,10{,}000}{\$84{,}000 \quad \$5{,}727}$$

Second withdrawal

Mark makes a second withdrawal of $50,000 on 1 November 2012. Prior to the withdrawal Mark's account balance was $156,000 including a tax-free component of $70,103 ($48,103 plus $14,000 plus $8,000). The balance after withdrawal is $106,000 including a tax-free component of $47,634.

This second withdrawal also affects the amount Mark can include in a valid deduction notice for contributions made in the 2011-2012 income year. Additionally, it affects the amount that can be included in a valid deduction notice for contributions made in the 2012-2013 income year insofar as the contributions ($8,000) were made before the withdrawal.

Valid deduction for the 2011-12 income year

For the 2011-2012 income year, Mark had made contributions of $10,000 prior to the withdrawal on 1 December 2011. As calculated above, only $5,727 of those contributions remained in the fund after the first withdrawal. After the first withdrawal, further contributions of $14,000 were made in the 2011-2012 income year. The proportion of the contributions made in the 2011-2012 income year that are still in the fund after the second withdrawal and for which Mark could present a valid deduction notice for 2011-2012 is:

$$\text{Tax free component of remaining interest} \times \frac{\text{Contributions}}{\text{Tax free component of interest before withdrawal}}$$

$$\$47{,}634 \times \frac{\$5{,}727 + \$14{,}000}{\$70{,}103 \quad \$13{,}404}$$

Valid deduction for the 2012-13 income year

For the 2012-2013 income year, Mark had made contributions of $8,000 between 1 July 2012 and the second withdrawal on 1 November 2012. The proportions of these contributions which are still held by the fund after the second withdrawal and for which Mark could give a valid notice for 2012-13 are:

$$\text{Tax free component of remaining interest} \times \frac{\text{Contributions}}{\text{Tax free component of interest before withdrawal}}$$

$$\$47{,}634 \times \frac{\$8{,}000}{\$70{,}103 \quad \$5{,}436}$$

On 10 February 2013 Mark presented a valid deduction notice for $13,404 for contributions made during the 2011-2012 income year. These contributions cease to be part of the tax-free component and become part of the taxable component. The balance of Mark's interest is reduced by $2,011 (15 per cent of $13,404), being the tax payable by the fund on the contribution which is now assessable income of the fund.

The balance of Mark's interest after presentation of the notice is $109,989 ($106,000 + $6,000 - $2,011), comprising a tax free component of $40,230 ($47,634 + $6,000 - $13,404) and a taxable component of $69,759 ($109,989 - $40,230).

Provided Mark does not make another withdrawal before he presents a deduction notice for the 2012-2013 income year a valid notice can be given to the fund for $21,436. This comprises the contributions made between 1 July 2012 and 1 November 2012 that remain in the fund after the withdrawal ($5,436) and contributions made between 1 November 2012 and 30 June 2013 ($16,000).

Hurdle 3. The superannuation fund trustee has to ascertain whether the notice is in the approved form.

The ATO has an approved form on its website titled a Notice of intent to claim or vary a deduction for personal super contributions form (NAT 71121) however each superannuation fund may have its own version of this form.

It may be used for two purposes being:

- The initial intention to claim, and
- The intention to vary down to a lesser amount.

A variation can never increase the amount of the deduction. To do this you need to lodge an additional notice of intent for subsequent contribution payments.

Additionally for the process to be complete the fund must have issued to your client an acknowledgment that they have received the notice, but this acknowledgment does not have to be received in the stated timeframes stipulated for giving your notice of intent.

However it should be noted the acknowledgement of the notice is required before the client

can claim the deduction in their personal tax return.

Example of increasing a personal super contributions deduction claim

John makes a contribution of $20,000 and lodges a notice with his super fund to claim a deduction for $15,000.

Later (but within the set timeframes) he decides to increase his deduction to $18,000.

John must send his super fund another notice, advising that he now also intends to claim $3,000 as a deduction.

His super fund will now have two valid notices – one for $15,000 and one for $3,000.

John should receive two acknowledgment notices from the fund.

The ATO has indicated to super fund trustees that there are three types of 'approved notice of intent' forms, (but remember the fund rules may be more severe than the law requires). They are:

- The ATO version in paper form (NAT 71121).
- A 'fund-branded' paper form which the trustee provides as long as it specifies all the information contained in NAT 71121 plus the completion instructions.
- A letter from the member, stating that they wish to claim a tax deduction for a specific amount of their personal super contributions and containing at least the mandated information.

It may be that the client's superannuation fund, due to prudent risk mitigation reasons, does not accept hand written intention to claim instructions. However, if they do then the following information must be included for the instruction to be valid:

- A statement that they wish to claim a tax deduction for a specific amount of their personal super contributions containing at least the following information:

1. First name
2. Family name
3. Date of birth
4. Fund name
5. Fund member account number
6. The financial year in which the contributions were made
7. The amount covered by their notice
8. The amount they intend claiming as a tax deduction
9. A declaration that they are lodging the notice by the due date, that is, by the earlier of the following:

- The day they lodged their income tax return for the year in which they made the contributions
- The end of the income year following the one in which they made the contributions
- A statement that the information contained in their letter is true and correct

1. Their signature
2. The date (day, month and year).

Summary

The process of claiming a tax deduction can be complicated - your client has to be eligible, the intention has to be valid, in the approved form, and within the prescribed time frames.

QUESTIONS

1. The notice of intent to claim or vary a deduction has two purposes. Which of the following is not one of those purposes?

A. the initial intention to claim.

B. the intention to vary up to a higher amount.

C. the intention to vary down to a lesser amount.

2. You must give a notice of intent to claim a deduction to your super fund on or before whichever of the following days occurs earliest – either:

A. The day you lodge your income tax return for the year in which the contributions were made.

B. The last day of the income year after the income year in which you made the contributions.

3. Which of the following is not a factor in lodging a notice of intent to claim a tax deduction for personal contributions?

A. Advising the amount intended to be claimed as a deduction.

B. Giving notice in the approved form.

C. Giving notice within the specified time limits.

D. Giving notice to the ATO.

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

It is important to ensure any intention to claim is lodged before any withdrawals, roll overs or pension commencement activity occurs. A simple hand written instruction claiming the amount is a personal deductible contribution on an application form is not valid even if the member signs and dates it. So if there is a desire to submit a hand written instruction you must ensure:

- It includes all of the required information, and
- It is timely, and
- The client's fund accepts hand written instructions.

Most importantly the entire process is incomplete until the fund member receives confirming acknowledgement from their superannuation fund.

Breckon joined the IOOF TechConnect team in April 2012 and has more than 30 years' experience assisting advisers with legislative research and technical strategies.

Prior to joining IOOF, Breckon was a technical manager, business development for MLC, and has worked as a technical marketing manager for Aviva Australia. He has also held diverse management roles with AXA, dealing in both wholesale and retail sectors.

Breckon is an active member of the industry; he has been involved in various industry bodies, and is a regular contributor to industry magazines and journals. Martin has an MBA and Diploma of Financial Services (Financial Planning).

To answer questions
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RACHEL LEONG
BT FINANCIAL GROUP

This article is worth
0.50 CPD POINTS
CRITICAL THINKING

Includes

- Idiosyncrasies of buy/sell insurance.
- Ownership structures for the insurance.
- Portability of insurance.

Navigating through the maze: buy/sell insurance ownership

Despite risk management and continuity being a vital part of a complete business plan, there are few businesses that have insurance arrangements in place. This article will focus on business succession insurance (or "buy/sell" insurance), which is one of two components that make up a business succession plan. The other component is the legal agreement that stipulates not only when the business share will be transferred to the remaining owners, but how that transfer will be funded, and for what amount.

With regard to funding, unless certain business owners are uninsurable, insurance is likely to be used as it does not require capital and is the least expensive option. Without doubt, the most common question is in regard to ownership. There are many options available such as self, cross, trust, business entity or super ownership. We will explore each of these options below to demonstrate which may be more appropriate than others.

Self-ownership

Self-ownership is simple and easy to understand. Each business owner owns a policy on themselves and pays the premiums – which they are incentivised to do as this provides the funding for their own share sale. Any proceeds will be paid to the departing business owner, or their estate, and deemed to be compensation for the sale of their business share. The legal agreement will ensure that the departing business owner's share is transferred to the remaining business owners upon one of the agreements trigger events occurring. Otherwise, the departing business owner could receive the insurance proceeds, as well as retain the business shares.

Note that the trigger events within the legal agreement may not be exactly the same as the insurance events, and may include some non-insurable events such as absence. For trauma insurance events, the legal agreement may stipulate a timeframe after the insurance event, during which time the insured person must not have contributed to the operation of the business.

Portability

If a business owner exits the business due to a non-insurance event such as retirement (and therefore does not claim on the policy for a buy/sell purpose) but still requires life insurance, they can simply take the policy with them and use it for their personal needs. The benefit of this is that there is no need to undergo medical and financial underwriting, which would be required if applying for a new policy. Further, when continuing an existing policy, premiums will still be based on the insured person's health status at policy commencement, and level premiums will not 'reset' to the current age of the business owner.

Premium disparity

It is highly likely that each business owner will pay a different premium due to varying business ownership proportions, plus the age and health status of each owner. If this is viewed as an issue, they may agree to pool total premiums and pay a proportionate amount based on their share of the business. Alternatively, each owner can pay their own premium and the business can offset any differences through future distributions.

To alleviate the issue of premium disparity, some clients look to the business to pay for their self-owned policies.

However, these payments may be viewed as an attempt at a tax-free distribution and may be caught by Division 7a of the *Income Tax Assessment Act 1936* (distributions to entities connected with a private company), and classed as a 'deemed dividend'. Deemed dividends are taxed for income tax purposes, but franking credits will not apply.

Taxation

If a death or terminal illness payment is made, CGT will only apply if the proceeds are paid to someone other than

the original owner and the policy was transferred for some consideration. Therefore, for the most part, CGT does not apply to death and terminal illness payments made from ordinary term life policies.

CGT will apply to total and permanent disability (TPD) and trauma payments if the proceeds are paid to someone other than the insured person or their relative. In the case of self-ownership, the proceeds are paid to the insured person, and therefore will not be subject to CGT.

CGT may also apply to proceeds from the disposal of the business share, with the tax liability borne by the departing owner. The sum insured could be increased to allow for any CGT payable.

Cross-ownership

This ownership structure, in its most simple form, describes a situation where business owner A owns a policy for which business owner B is the life insured, with a sum insured that represents the value of owner B's share of the business. Similarly, business owner B would own a policy with business owner A as the life insured, in the same manner. Any proceeds received provide funding for the purchase of the departing owner's share. A legal agreement will still be required to ensure that the departing owner is compelled to sell to the remaining owners, at a predetermined price.

Premium disparity

Again, there will likely be premium disparity under a cross-ownership structure where age, health and/or smoker status differences exist, and the same remedies that can be used for self-ownership, can also be used under a cross-ownership arrangement.

Taxation

The main issue with cross-ownership is that unless the policy owner is a relative of the insured person, CGT will apply to TPD or trauma proceeds. A relative is defined in section 995.1 of the *Income Tax Assessment Act 1997* as:

"(a) the person's spouse; or
(b) the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendent or adopted child of that person, or of that person's spouse; or
(c) the spouse of a person referred to in paragraph (b)."

CGT may also be payable on the disposal of the business share, in which case the sum insured can be increased to allow for this.

Trust-ownership

If insurance is owned within a trust structure, the legal owner is the trustee of that trust. Premiums are paid from the trust and any insurance proceeds are paid into the trust, which can then be distributed to beneficiaries.

One benefit of a trust is that insurance for more than one purpose can be held in the same place, and in a single policy. Thus, higher premium discounts may be available due to the larger sum insured. A portion of cover could be for a buy/sell purpose (with the beneficiary being the departing owner), a portion could be for a key person purpose (the business being the beneficiary), and a portion could be for a personal purpose.

However, the cost of setting up and maintaining a trust should be considered. Setting up a trust involves, amongst other things, receiving advice about the type of assets to hold in the trust, creating the trust deed, and stamping the deed in certain states/territories. *The Australian Financial Review,* in August 2015, reported that this may cost between $1,000 and $2,000[1]. The cost of maintaining a trust includes accountancy fees for the annual tax return and general accountancy services throughout the year. The Australian Financial Review estimated that this could cost between $1,500 and $2,500 each year.

Premium disparity

As the trustee incurs the cost of all business owners' policies, premium disparity is not an issue.

Taxation

A trust is essentially a look-through entity. Since the passing of legislation in 2015, insurance proceeds paid into a trust and then distributed to a beneficiary, are taxed in the same manner as directly-owned insurance. Therefore, depending on the type of beneficiary that receives the payment, CGT may or may not apply. For example, CGT will apply to TPD and trauma proceeds that are paid via a trust, to someone other than the insured person or their relative.

Business entity ownership

The business entity owns and pays for the insurance policies, and any proceeds are paid to the business, which are then used to purchase (or buy back) the departing owner's shares. The legal agreement ensures that the business share is transferred from the departing owner to the business.

Premium disparity

As the business incurs the cost of all business owner's policies, premium disparity is not an issue.

Taxation

TPD and trauma proceeds will be subject to CGT, as the business entity is neither the insured person nor their relative. The sum insured can be grossed-up by applying a factor of 1 / (1 – company rate). The company rate will be 28.5 per cent or 30 per cent, depending on annual turnover. Note that the general CGT discount is not available for companies.

In regard to the business share, this is usually dealt with through a buy-back arrangement.

The exiting owner's share is repurchased and the total number of shares reduced. The effect of this is that the remaining business owner's shares represent a higher level of equity in the business. However, as they have not purchased more shares, the original cost base continues to apply. Therefore, upon subsequent sale, a larger CGT liability may be incurred.

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Continued from page 33

Superannuation-ownership

Insurance is owned by the super fund trustee on behalf of the insured person. Premiums are deducted from the insured person's super account and funded either from accumulated savings or contributions. Any proceeds are paid either as a death benefit, terminal medical condition payment, or super lump sum payment.

There has been much industry debate on whether buy/sell insurance inside super is compliant with super law. The main issue is in regard to the sole purpose test and whether an arrangement that arguably does not further the retirement savings goals of the member will comply. The Australian Tax Office (ATO) issued an Interpretive Decision in 2015 (*ATO ID 2015/10*) regarding buy/sell insurance within SMSFs that stated that the sole purpose test and financial assistance provisions will be breached.

Due to the underlying reasoning within the interpretive decision, existing arrangements could come under review. In such cases, guidance should be sought from an auditor and/or a private ruling obtained from the ATO.

Product limitations

Changes made to super law in 2014 mean that trauma can no longer be offered from superannuation. Trauma was not offered from retail super funds long before this date, and rarely owned within SMSFs. Further, since this date, super fund trustees have been unable to offer own occupation TPD inside super. Clients seeking trauma policies or an own occupation TPD definition can use flexible linking or super linking to fund as much of the policy as possible from super, while ensuring that any issues with super ownership are minimised.

Flexible linking builds on the traditional concept of rider policies, but allows the rider to be held outside super. For example, a trauma policy could be owned outside super, but linked to a term life policy inside super.

Super linking refers to a single policy spread across the super and non-super environment. This is relevant for TPD policies in a business insurance context. The portion of the policy that is held inside super is the part that can be accessed under a super condition of release (any occupation definition), while the portion held outside super is that which cannot (own occupation definition).

Adviser obligations

Advisers can no longer rely on generic warnings to clients about the potential risks of owning insurance inside super. ASIC's report on retail life insurance advice (*ASIC 413*) issued in October 2014 recommended that the advantages and disadvantages of insurance inside super be fully addressed within the statement of advice.

Advisers should ensure that the client is aware that the policy is owned by the super fund trustee on their behalf, and that any proceeds will be taxed differently to personally-held policies, that is, taxed as payments from super. Further, the client should be made aware of the requirement to nominate beneficiaries with consideration on the appropriateness of a binding or non-binding nomination, should they wish to direct their death benefit to a particular beneficiary.

Unless contributions are made that offset insurance premium deductions, retirement savings will be eroded. This needs to be clearly quantified and articulated to the client, including discussion on the impact of losing not only the contributed amount, but also the compounded interest. Further, the effect on contribution limits and current and future cash flow needs to be disclosed, as well as the possibility that the client may need to defer retirement. In addition, the type of contribution should be considered and compared.

Contribution limits

Non-concessional or concession contributions made to offset premium deductions from super will count towards the relevant limit. Many clients choose to use concessional contributions so that premiums are paid with pre-tax monies. The current concessional contribution limit is $30,000 (for those under 49 on 30 June 2015), or $35,000 (for those aged 49 or older on 30 June 2015). If concessional contributions exceed the relevant limit, excess contributions (not used to fund the policy) could be refunded to avoid exceeding the non-concessional contribution limit, however an excess concessional contribution charge will still apply.

Taxation

TPD proceeds paid to someone under age 60 are likely to be subject to tax of up to 22 per cent, however a smaller proportion of proceeds will be taxable if the disability super benefit definition is satisfied. Further, term life proceeds paid as a death benefit to a non-tax dependant will be subject to tax of up to 32 per cent. A tax dependant is defined as a spouse (current or former), minor child, financial dependant or someone who was in an interdependency relationship with the deceased just prior to their death.

However, term life proceeds paid in advance as a terminal illness payment (and qualifying under the 'terminal medical condition' condition of release) will be paid tax-free.

If flexible or super linking arrangements are in place, the tax treatment will depend on which environment proceeds are paid from. For example, in a super linking scenario where a TPD policy is split between super and non-super ownership, the insured person will firstly be assessed against the any occupation definition within super. If the insured meets the definition the claim will be paid into the super fund and super lump sum tax rates will apply when withdrawn. However, if the insured person does not qualify under the any occupation TPD definition, they

will be assessed against the own occupation definition outside super.

If successful, the proceeds will only be subject to CGT if the proceeds are paid to someone other than the insured person or their relative – therefore, if this portion is self-owned, CGT will not apply.

Conclusion

As other ownership options result in negative CGT outcomes, it is generally self-ownership or trust-ownership that is chosen. Self-ownership may be suitable for simple arrangements, whereas trust-ownership may be more suitable for more complex arrangements, due to the associated legal and accounting costs.

Regardless of the ownership option chosen, a carefully worded legal agreement is essential. Both the legal agreement and insurance will ensure that the intended outcome will eventuate. Therefore, it is vital that the adviser work together with a solicitor well-versed in business insurance arrangements, in addition to the accountant who provides a fair market value for each business share.

Footnotes

[1]*Australian Financial Review,* "The how and why of family trusts", 21 August 2015

Rachel Leong, Product Technical Manager, Life Insurance, BT Financial Group

QUESTIONS

1. The advantages of self-owned buy/sell insurance are:

a. Simplicity, portability, no CGT on proceeds.

b. Simplicity, portability, no CGT on proceeds, ability to use the insured person's super to fund premiums.

c. Simplicity, portability, no CGT on proceed, nil adviser obligations in SOAs.

d. Simplicity, portability, nil adviser obligations in SOAs, premium disparity is not an issue.

2. The advantages of trust-owned buy/sell insurance are:

a. Insurance for more than one purpose can be held in one policy, no CGT on proceeds, potential large sum insured discounts.

b. Insurance for more than one purpose can be held in one policy, proceeds will be subject to CGT in the same manner as directly-owned insurance, potential large sum insured discounts.

c. Insurance for more than one purpose can be held in one policy, proceeds will be subject to CGT in the same manner as directly-owned insurance, potential large sum insured discounts, and it's the least expensive structure to set up and maintain.

d. Insurance for more than one purpose can be held in one policy, no CGT on proceeds, potential large sum insured discounts, and it's the least expensive structure to set up and maintain.

3. Buy/sell insurance inside super is:

a. Prohibited in both SMSFs and retail super funds.

b. Allowable in both SMSFs and retail super funds.

c. Allowable in SMSFs and a topic of industry debate in retail super funds.

d. Prohibited in SMSFs and a topic of industry debate in retail super funds.

4. Premium disparity can be dealt with in the following ways:

a. The business owners can simply agree to pay their respective premiums.

b. The business owners can pay their respective premiums and differences can be offset in future distributions from the business.

c. Premiums can be pooled, of which each owner pays a proportionate amount based on their ownership share.

d. All of the above.

5. The tax implications of receiving buy/sell insurance proceeds from super are:

a. TPD proceeds will be treated as a super lump sum and taxed at a rate of up to 22 per cent.

b. Death benefits will be taxed at a rate of up to 32 per cent, if paid to a non-tax dependant.

c. Both of the above.

d. None of the above.

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New academic journal hits the stands

The first-ever Australian dedicated peer-reviewed financial planning periodical has just been released. Alexandra Cain reports.

The first issue of the new *Financial Planning Research Journal* has recently been published. It's one of the only academic research journals dedicated to financial planning and the first in Australia. The publication is a joint project of the Department of Accounting Finance and Economics, Griffith Business School, Griffith University and the FPA.

Co-editor of the journal, Dr Mark Brimble, head of finance and financial planning discipline at Griffith University, explains that as an emerging profession, a sound theoretical and academic foundation for financial planning is essential. Brimble is also the chair of the Financial Planning Education Council. His co-editor is Dr Rakesh Gupta.

"Until now there have been few outlets for academic research purely dedicated to the field and this journal will help to build a research agenda in the discipline. It's possible to find academic research in financial, education and psychology journals. But to date there has been no home for this research in one place," says Brimble.

"The journal means we are now able to publish research in the Australian context in financial planning, that is readily accessible and available to practitioners working in the area," he explains. The journal is part of the continuing work of the Financial Planning Education Council. It helps to build the relationship between higher education and the profession.

DR MARK BRIMBLE

The Council has been working on a national financial planning curriculum, accrediting university degrees and setting research goals. Brimble says the journal is a natural extension of this work.

Scope of content

The concept for the journal is for it to cover a broad range of areas that relate to financial planning including investing, taxation, psychology, decision-making, laws and regulations, public policy, professionalism and education. It's aimed at professionals as well as financial planning students. "It's a very broad field and has relevance in Australia and globally," Brimble says.

As with most academic journals, research papers that are submitted for publication undergo a double blind peer review process. But anyone can put forward contributions that are within the field of personal financial planning.

"We're happy to give potential contributors advice about how to prepare their contribution. We also accept technical notes and short form pieces discussing technical issues. But we don't publish opinion pieces," Brimble advises.

"We're interested in working with research students looking to do a PhD or thesis in this subject area and encourage students looking into financial planning to contact us," he adds.

To find out more about how to contribute email editor.fprj@griffith.edu.au.

Until now there have been few outlets for academic research purely dedicated to the field and this journal will help to build a research agenda in the discipline

WHAT'S IN THE FIRST ISSUE?

Below are edited abstracts of three of the papers in the first issue of the *Financial Planning Research Journal*.


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Challenges facing financial planners advising ageing clients with diminished financial capacity
John Teale

Just how safe are 'safe withdrawal rates' in retirement?
Michael E. Drew & Adam N. Walk

The conflict between financial decision making and indigenous Australian culture
Suzanne Wagland & Sharon Taylor

A (W)ayole in financial budget: Budgeting's influence on the effective use of credit card debt in Australia
Sanja Ajzerle, Mark Brimble & Brett Freudenberg

Understanding the relationship between fund flows and past performance in Australian managed funds
Sudharshan Reddy Paramati, Di Mo & Rakesh Gupta

Griffith UNIVERSITY

FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

Introduction

The ageing process can be associated with neurological conditions such as stroke, Alzheimer's disease, dementia and other progressive neurological disorders, associated with ageing that cause a decline in financial capacity (Marson 2013). These disorders raise particular challenges for financial planners because new skills and processes are needed when dealing with this demographic (Karp & Wilson 2011). Financial planners must recognise clients with this condition before advising on a range of financial matters (Drew, 2015), which include investing to provide adequate retirement income, funding to live in retirement villages, health care and much more.

Research on ageing and associated diminished financial capacity has been published in Psychology journals, for example, *American Journal of Geriatric Psychology*, *Neurology* and *Gerontology*. However, that research focuses on the medical reasons for diminished financial capacity and not on the implications for financial planners providing financial advice to their aged clients.

So this paper seeks to address those implications for financial planners. The implications are discussed in four sections that focus attention on the reduced financial capacity of many in this group. The first section discusses the growth of the ageing population and explains the reasons for an anticipated decline in the financial capacity of many in this group. The next section provides a definition of this condition, identifies the abilities that signify financial capacity, and identifies a test to avoid confusion with lack of financial literacy. Then the third section highlights the common law courts' ruling on the validity of contracts involving individuals with diminished capacity. This section also identifies the liability issues facing financial planners for failing to detect the presence of diminished financial capacity, the 'red flags' that could indicate its presence, and the guiding principles to be used when diminished financial capacity is detected. Finally, the fourth section discusses important challenges faced by financial professionals.

8

Challenges facing financial planners advising ageing clients with diminished financial capacity

John Teale
UNIVERSITY OF NEW ENGLAND

Old age can be associated with declining cognitive abilities, which can lead to a reduced ability to make sound financial decisions. This is an important issue for financial planners, but reduced financial capacity is often difficult to detect. Severe legal consequences can arise for financial planners who provide what is later deemed to be inappropriate financial advice to clients with impaired cognitive ability. This article aims to help financial planners understand this and the actions to take when it is detected.

Just how safe are 'safe withdrawal rates' in retirement?

Michael E. Drew, Adam N. Walker
GRIFFITH UNIVERSITY

This study considers a cornerstone question in the retirement income debate: what's a safe withdrawal rate for retirement? This question is important within the context of Australia's superannuation system, given compulsory contributions during the accumulation phase, but no compulsory requirement to annuitise lump sums in the decumulation phase. As a result, many retirees face a classic asset-liability mismatch; the need to fund relatively short- and medium-term retirement spending needs with a long-term investment strategy. This study tests the four per cent rule, which suggests retirees withdraw four per cent of their super funds a year as a pension. The findings question the validity of this approach.

The conflict between financial decision-making and indigenous Australian culture

Suzanne Wagland, Sharon Taylor
UNIVERSITY OF WESTERN SYDNEY

Financial literacy or financial capability is widely agreed as fundamental for financial wellbeing. This is particularly relevant in Australia, where the federal government's policy of self-funded retirement is a critical issue.

Previous research by big four bank ANZ suggests when it comes to financial matters, a large proportion of the population have insufficient levels of the financial knowledge and skills needed to manage their finances into the future. Australia's indigenous population has been identified in ANZ's research as one of the groups most at risk.

Education programs have been put in place to address this issue. But studies show Australia's indigenous population demonstrates low levels of financial literacy, with little to no identifiable improvement in measured skills over studies undertaken since 2003.

Family and friends dominate traditional indigenous culture, rather than personal wealth gratification. In particular, these cultural values relating to money are in direct contrast to western societal values. This research paper, the first in a series, looks at whether the conflict between western and indigenous culture might explain poor financial literacy levels among the indigenous population. It also poses questions about the content and design of educational programs aimed at indigenous Australians.

Redundancy

and income support payments

Financial planners have an important role when a client loses their job.

Redundancy can be a difficult time, and many Australians will experience it at some point in their career. It's important to be in-the-know about what the Department of Human Services can do to help in this situation.

After being made redundant, the logical next step for most people is to find work again, and this is one area where the department can provide support.

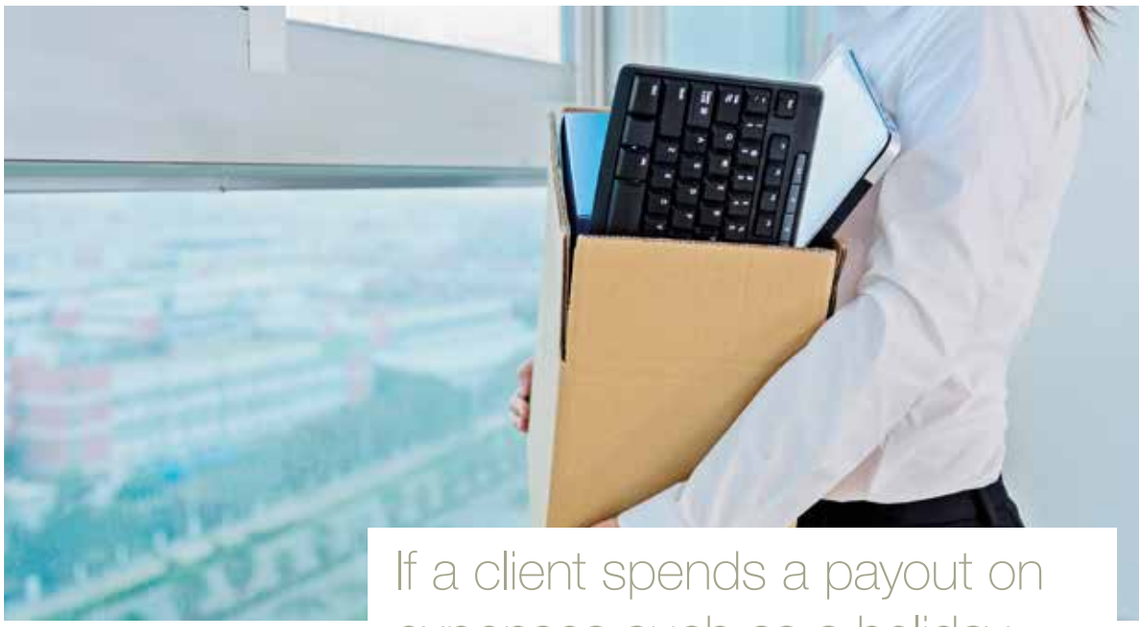
If a client is made redundant the department can provide a referral to an employment services provider. This is an important first step to assist them to find work. In addition, there is a range of income support payments available while they are looking for work or undergoing activities, such as study or training, to increase their chances of finding work.

These payments include:

- Newstart Allowance
- Parenting Payment
- Sickness Allowance
- Youth Allowance
- Widow Allowance
- Austudy
- ABSTUDY

The client's application will be assessed against standard eligibility criteria. But any payouts they receive from their former employer can have implications as to the timing of when they can begin receiving an income support payment.

The income maintenance period is a waiting period applied to customers who receive a redundancy payout. This is a legislative requirement and it varies in length according to the size of the payout the client receives.



If a client spends a payout on expenses such as a holiday … this does not reduce the income maintenance period.

For example, if the client or his or her partner were made redundant and received a ten week payout, the department is required to assess their income maintenance period to be ten weeks.

This means he or she would have to wait ten weeks before receiving an income support payment from the department, provided the usual eligibility criteria for the payment are met.

If a client spends a payout on expenses such as a holiday, a lump-sum mortgage payment, or lump-sum rent payment, it's important to be aware this does not reduce the income maintenance period.

This is why it is important clients spend their payout in a way that won't render them unable to cover essential costs during the waiting period.

There are exceptions. For example if a client was to spend the payout on expenses that are considered unavoidable or reasonable such as essential repairs to a car or home, or essential medical expenses, the department may be able to reduce the waiting period.

In some cases, the client may receive a small payout and may be eligible for a part payment during the income maintenance period.

It is highly recommended the client make contact with the department to have the income maintenance period assessed, even before receiving the payout, to effectively plan ahead.

The department can also provide assistance by linking clients with employment services providers, social workers and financial information service officers.

For more information, visit humanservices.gov.au/jobseekers and click on the 'retrenched or redundant' tab.

FPA Chapter directory

New South Wales

Sydney
Vicky Ampoulos
Chairperson
T: 0411 743 098
E: vampoulos@cba.com.au

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

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: peterr@roanfinancial.com

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

ACT

Claus Merck CFP®
Chairperson
T: (02) 6262 5542
E: claus.merck@actwealth.com.au

Victoria

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

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

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

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

Geelong
Brian Quarrell CFP®
Chairperson
T: (03) 5222 3055
E: brian.quarrell@bendigoadelaide.com.au

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

Goulburn Valley
John Foster CFP®
Chairperson
T: (03) 5821 4711
E: john.foster@bridges.com.au

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

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

Queensland

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

Cairns
Kris Robertson AFP®
Chairperson
T: 0439 724 905
E: robertsonk@westpac.com.au

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

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

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

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

Sunshine Coast
Andrew Geddes CFP®
Chairperson
T: 0437 835 609
E: andrew.geddes@miqprivate.com.au

Toowoomba/Darling Downs
Bob Currie CFP®
Chairperson
T: 0420 301 081
E: bob.currie@altitudews.com.au

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

Western Australia

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

Tasmania

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

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

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Board Committees

Regional Chapter Committee
Matthew Brown CFP®
E: matthew.brown@miqprivate.com.au

Professional Standards and Conduct Committee
Marisa Broome CFP®
E: marisa@wealthadvice.com.au

Audit Committee
Philip Pledge
E: phidpledge@bigpond.com

Governance and Remuneration Committee
Neil Kendall CFP®
E: neil.kendall@fpa.com.au

Policy and Regulations Committee
Marisa Broome CFP®
E: marisa@wealthadvice.com.au

Professional Designations Committee
Julie Matheson CFP®
E: so95678@bigpond.net.au

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