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Heart of the profession

Susan Grice on changing the lives of young Australians for the better

THIS ISSUE

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July 2016

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Laser focus

The start of a new year is often a significant time. Whether it be a calendar or financial year, it can be a time for reflection, but also a time to re-visit our priorities, review our strategies and sharpen our focus on the year ahead.

Whilst our profession undergoes a period of change and a new phase of legislation, rest assured that the focus of the FPA remains as sharp as ever. Recently, the FPA Board completed a strategic planning process that resulted in the development of LASER 2020; a strategic roadmap that sets the direction for the next five years.

During this process, we identified five key areas equally vital to securing the future of our profession – and the future of more Australians. These areas are Leadership, Awareness, Standards, Engagement and Recognition.

Whilst our focus remains sharp, the challenge for our community is to stay abreast of the changes we need to know about and be open-minded about embracing a new way of doing things. This is the focus of this year's FPA Professionals Congress and I am excited to reveal more about the program in due course. If you haven't yet registered, you can secure the Early Bird rate at fpacongress.com.au until 31 August.

Whilst our focus remains sharp, the challenge for our community is to stay abreast of the changes we need to know about and be open-minded about embracing a new way of doing things.

The power of community

I'm a big believer in the power of community. With so much change upon us, we felt it is an appropriate time to develop a new Advocacy Kit, for those who would like to reach out to their local Member of Parliament. Our voices are so much more powerful when combined, and with your help, we can educate MPs, both current and new, about the power of professional financial advice.

The Advocacy Kit will be available in the Member Centre later this month. The kit will include all you need to establish a relationship with your local MP, including background on the FPA, fact sheets on key legislative changes, plus helpful tips on engaging with your local MP. Stay tuned for more information or contact the policy team at policy@fpa.com.au to find out more.

Passing the Future2 baton

Recently we were sad to see Susan Grice step down as General Manager of Future2 after nine years of hard work and dedication to Future2. Susan has been instrumental in the growth of Future2 and she will be hugely missed at the FPA office.

The good news is, Future2 will rest in the safe hands of the FPA team. We will carry on her legacy proudly and continue to grow the organisation. On page 16, you can read an interview with Susan and hear from Future2 Chair, Matthew Rowe on the future direction of our charitable foundation, which embodies the good work financial planners do every day.

In my mind, Susan is a great example of how passion can bring about huge impact to the lives of many. It is passion that keeps driving us forward. It is passion that makes the financial planning community what it is today. It is passion that will ensure we secure a better future for all.

Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

TPB seeks comments on draft code

The Tax Practitioners Board (TPB) is seeking comments from planners on its draft Code of Professional Conduct information sheets for tax (financial) advisers.

TPB chair Ian Taylor has today invited all stakeholders to comment on four new draft information sheets providing practical guidance on how the Code of Professional Conduct applies to tax (financial) advisers.

"All registered tax practitioners, including tax (financial) advisers, need to ensure they comply with their obligations under the Code," Taylor said. "To assist tax (financial) advisers to understand what this means for them, the TPB has issued four exposure draft documents relating to acting in the best interests of their clients, taking reasonable care to ascertain a client's state of affairs, applying tax laws correctly and managing conflicts of interest."

The four draft documents are:

- TPB(I) D32/2016 Code of Professional Conduct – Acting lawfully in the best interests of clients for tax (financial) advisers;
- TPB(I) D33/2016 Code of Professional Conduct – Reasonable care to ascertain a client's state of affairs for tax (financial) advisers;
- TPB(I) D34/2016 Code of Professional Conduct – Reasonable care to ensure taxation laws are applied correctly for tax (financial) advisers; and
- TPB(I) D35/2016 Code of Professional Conduct – Having adequate arrangements for managing conflicts of interest for tax (financial) advisers.

Submissions on the four exposure drafts close on 11 July 2016. Comments can be sent to tpbsubmissions@tpb.gov.au

Claire McGregor takes out Gwen Fletcher Memorial Award

Elston Partners strategy adviser Claire McGregor AFP® has been named the Gwen Fletcher Memorial Award winner for being the highest achieving student in Semester 1 of the CFP Certification unit. The award is presented each semester.

Brisbane-based Claire receives her award for achieving the highest mark in all three required assessments in the CFP Certification program. As part of the award, Claire receives a certificate of recognition and $1,000, which is funded by the FPA.

Claire joined Elston six years ago as a paraplanner before moving into the role of strategy adviser three and a half years ago. Prior to Elston, Claire worked for a boutique financial planning business in Brisbane city. Claire says she aims to provide her clients with quality strategic advice while maintaining a high standard of service to help her clients achieve their financial and lifestyle goals.

Claire McGregor

As the winner of this semester's award, Claire says she is committed to building her qualifications to ensure that her clients can draw greater benefit from her skills. Claire now adds the CFP Certification to her QUT Bachelor of Arts degree and Advanced Diploma of Financial Services.

The Gwen Fletcher Memorial Award was established in 2014 in memory of Gwen Fletcher AM. The Award is presented each semester to the highest achieving student in the CFP Certification unit, which covers all three required assessments in the CFP Certification Program.

ATO retires e-tax in 2016

The Australian Taxation Office has announced the retirement of its legacy online lodgement tool, e-tax.

ATO Assistant Commissioner Graham Whyte said the ATO had replaced e-tax for this new financial year with myTax, which has been upgraded and improved, making it suitable for any Australian wanting to lodge their own tax return.

"In 2016, myTax has been expanded to do everything e-tax could do and more and will be available on 1 July 2016," Whyte said.

"For example, not only will Australians with rental properties be able to use myTax this year, but they will also be able to take advantage of the fully integrated tools and calculators. One of these new tools allows property investors to record depreciation and capital gains."

myTax can be accessed on any smartphone, tablet or computer. In 2015, there were 1.75 million lodgements through myTax, a 70 per cent increase in the number of people using the service.

"Over the past few years, we've been seeing around three million Australians prepare their own tax return using either myTax or e-tax, so we're hoping to see three million myTax lodgements in 2016," Whyte said.

Whyte acknowledged that while myTax was a convenient tool for people wanting to lodge their own tax return, the ATO also recognised that around 74 per cent of Australians still seek the assistance of a tax agent to lodge their return.

Cost of living drops for retirees

There was a slight reduction in the cost of living for retirees in the March quarter, with a drop in the cost of petrol offsetting an increase in the cost of pharmaceuticals, health and medical services, according to the Association of Superannuation Funds of Australia (ASFA) Retirement Standard.

The new figures illustrate that couples living a comfortable retirement, aged around 65, need to spend $58,922 per year and singles $42,893, down 0.5 and 0.7 per cent respectively on the previous quarter. Total retirement budgets for older retirees decreased by 0.2 per cent at the comfortable level, and 0.1 per cent at the modest level.

According to ASFA retirement modelling, in order to achieve a comfortable standard of living in retirement, an individual requires a minimum balance of around $545,000 and a couple around $645,000. Currently, less than 20 per cent of single people and 30 per cent of couples (aged over 65) are able to reach this standard of living.

"ASFA advocates a goal of at least 50 per cent of retirees living at the comfortable standard by 2050. Unfortunately, saving an adequate amount for retirement is anticipated to get harder, with a low interest rate environment and an ageing population which will place more strain on governments as they seek to fund the increasing costs of health and aged care," said recently departed ASFA chief executive officer, Pauline Vamos.

For the March quarter, the most significant price drops contributing to the decline in annual budgets were for automotive fuel (-10.0 per cent), fruit (-11.1 per cent) and holiday travel, particularly accommodation (-2.0 per cent). However, medical and hospital services (+1.6 per cent) and pharmaceutical products (+4.8 per cent) both increased.

Insurance premiums continue to increase with a rise of 1.7 per cent in the quarter. Over the last 12 months, insurance premiums have increased by 5.2 per cent.

**The figures in each case assume that the retiree/s own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly, unless otherwise stated.*

TABLE 1: Budgets for various households and living standards for those aged around 65 (March quarter 2016, national)*

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Housing - ongoing only	$73.73	$70.78	$85.45	$99.06
Energy	$40.97	$54.41	$41.58	$56.39
Food	$77.27	$160.07	$110.39	$198.71
Clothing	$17.31	$28.10	$37.47	$56.2
Household goods and services	$27.10	$36.74	$76.22	$89.28
Health	$43.22	$83.41	$85.75	$151.33
Transport	$90.30	$92.85	$134.56	$137.12
Leisure	$75.09	$111.87	$227.54	$311.82
Communications	$8.61	$15.07	$23.65	$30.11
Total per week	$453.59	$653.29	$822.60	$1,130.01
Total per year	**$23,651**	**$34,064**	**$42,893**	**$58,922**

TABLE 2: Budgets for various households and living standards for those aged around 85 (March quarter 2016, national)*

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Housing - ongoing only	$73.73	$70.78	$85.45	$99.06
Energy	$40.97	$54.41	$41.58	$56.39
Food	$77.27	$160.07	$110.39	$198.71
Clothing	$17.31	$28.10	$37.47	$56.2
Household goods and services	$47.57	$67.43	$147.87	$171.16
Health	$93.35	$144.92	$127.84	$203.95
Transport	$37.57	$46.96	$42.26	$51.65
Leisure	$47.84	$71.37	$123.65	$170.92
Communications	$8.56	$14.98	$23.52	$329.93
Total per week	$444.16	$659.02	$740.03	$1,037.96
Total per year	**$23,160**	**$34,363**	**$38,587**	**$54,122**

Future2 farewells Susan Grice

After nine years at the coalface of the Future2 Foundation, Susan Grice has departed the FPA's charitable foundation to spend more time with her husband and explore other opportunities.

In an emotional send off, members of the Future2 Board were on hand to farewell Grice, who was also presented with the inaugural Future2 Distinguished Service Award by Future2 Chairman, Matthew Rowe CFP®.

According to Rowe, Grice had been instrumental in taking Future2 from a concept in 2007 to a charitable Foundation responsible for providing $613,000 in grants to community not-for-profit organisations involved in improving the lives of disadvantaged young Australians.

During her time at the Foundation, Grice was also heavily involved in the annual Future2 Wheel Classic, which over the past six years has raised $585,000. She was also responsible for the inaugural Future2 Kilimanjaro Challenge, which helped raise $38,500 this year for the Foundation. Both initiatives raise valuable funds for grant recipients.

Matthew Rowe and Susan Grice

"I don't think anyone on the inside of Future2, from the Board to our volunteers, underestimate the impact Susan has had on Future2," Rowe said.

"Susan has been there since day one and her efforts have been nothing short of amazing. I believe that Future2 survived the early years and has grown to where it is now in no small part because of Susan's passion, conviction and resolve. Our Foundation owes her an immense debt. If I had to describe Susan in one word it would be resilient and if I had to describe her contribution to Future2 it would be herculean."

To read more about Susan Grice and Future2, go to p16.

Heading with Three wishes and overides

Q: With the upcoming Federal election, what are your top three financial services wishes that you would like to see implemented by the new Government?

WAYNE LEGGETT CFP®

Principal, Paramount Wealth Management
Licensee: Fortnum Financial Advisers

If, following the Federal Election, the Government was to grant the financial services industry three wishes, these would be my choices:

1. Change the tax treatment of concessional contributions from deductible to a rebate.

The principal argument against the current tax treatment of concessional contributions is that they give the greatest advantage to those who need it least. If something is tax deductible, the higher your tax bracket, the greater the benefit. Given that the primary purpose of superannuation is to facilitate more taxpayers becoming self-funded and thus less reliant on the Age Pension, the taxation concessions afforded to super should align with this objective.

The 'double taxation' measures for those presently on taxable incomes of $300,000 plus are an attempt to remedy this, but they are administratively complex. A rebate would ensure that the 'public contribution' to concessional contributions was constant regardless of the marginal tax rate. This is a much more equitable outcome.

2. Replace annual contribution caps with lifetime caps.

For most families, financial priorities follow a regular pattern. During the first 20 or so years, the focus is on paying off a home and raising a family. Only after these issues are 'put to bed' is saving for retirement a priority. Having annual caps on super contributions, most of which are unused, is a non-sensical approach without some provision for catching up. If caps were determined over a lifetime, entitlement to contribute would align more closely with capacity.

3. Remove the exemption of the family home from Centrelink Assets Testing.

One of the greatest anomalies in Australia's retirement income regime is that, while being introduced to restrict the receipt of the Age Pension to those who need it most, the family home remains sacrosanct. It makes no sense that a few hundred thousand dollars in assets can prevent receipt of the Age Pension, while millions in home equity has no impact.

SIMON DUIGAN AFP®

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

My three wishes are:

1. Increasing the spend and commitment to improving financial literacy in our schools. The financial literacy strategy, grants program and resources on the Money Smart website are great initiatives and need to be supported and built on. This will ensure that our children have the requisite financial knowledge and skills to equip them to make smart financial decisions.

2. The 2016 Federal Budget saw a raft of changes to superannuation, and non-concessional contributions was amongst them. The $500,000 lifetime limit on non-concessional contributions was in force as of Budget night and has caused administrative issues for advisers and accountants.

The Australian Taxation Office seems to have been underprepared, or not forewarned, and in turn overwhelmed with a deluge of requests for contribution totals dating back to 1 July 2007. Changes with such ramifications need to be in consultation with relevant industry bodies to enable them to assess the consequences and provide relevant responses and strategies for implementation of suggested changes.

3. Implementing a framework to provide certainty and consistency around superannuation legislation. One of the issues that we face as an industry is that the public has lost faith in the superannuation system, due to the goal posts being changed regularly. With legislation developed to enshrine the purpose of superannuation in law, we need to ensure it remains a vehicle of trust for our retirement savings.

With these changes, we believe that the younger generation will have increased general financial knowledge, which should in turn place higher value on the provision of financial advice. And the public will have renewed or increased confidence in the superannuation system.

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

ANNE GRAHAM CFP®

Managing Director/Senior Financial Planner, McPhail HLG
Licensee: Securitor Financial Group

Regardless of who becomes our next Prime Minister, the Government of the day needs to focus on long-term strategic thinking and planning for the future in order to achieve its desired outcomes. A robust, growing and healthy sector is likely to be one of those objectives.

With that in mind, there are some big ticket issues that need to be addressed in our economy and society in general, and financial services in particular. Here are just a few ideas for consideration:

1. Even playing field.
With the removal of the Accountants' licensing exemption and the potential influx of additional advisers providing advice to clients, the oversight and regulation of the profession needs to be consistently applied to all participants. This can more readily be achieved by a fully funded and resourced regulator, provision of feedback on interpretation of policy and regulation, and swift and appropriate penalties applied where appropriate.

2. Inquiry into the property investment industry.
The value of Australia's 9.6 million residential dwellings is now approximately $5.9 trillion, the highest on record. It makes the superannuation pool seem quite small in comparison at only approximately $2 trillion. Now, think about the disparate regulations relating to advice in super and property and you can see where problems may arise.

If the Government's aim is to encourage investors to save and provide for retirement, and clearly property is not an insignificant element of a retirement plan, then the property industry needs to be scrutinised far more closely. Some starting points might be: remuneration models; disclosure requirements; realistic estimates of property values; advice provided by real estate agents and so forth.

3. Review marketing of sophisticated products directly to consumers by issuers.
Rightly or wrongly, as advisers and educators, we are all too aware that most clients don't/won't read the small print on a PDS and other offer documents. And when they do read the information, very few truly understand it.

Human nature is such that people are attracted to the headlines and the 'easy to read' copy. When we need to think about and absorb difficult and complex information, many people take shortcuts. So, when issuers of sophisticated (read, complex) products market directly to consumers, short cuts will be taken, mistakes will be made and tears will be shed.

ROB COYTE CFP®

CEO and representative, Shartru Wealth Management
Licensee: Shartru Wealth Management

Regardless of which party is elected to government, I have only two wishes for the betterment of the consumer and the broader advice industry.

1. The first is for politicians and special interest groups to actually allow time for the FOFA changes to be able to work.

These changes to the law were sweeping and the Best Interest duty makes it crystal clear what is required from those who provide financial advice. The recent LIF reforms have simply been a distraction on all sorts of levels and will in no way result in the consumer of advice being better off.

If the current FOFA legislation was enforced, then advisers who did not act appropriately in regards to life insurance or any other form of advice would be able to be reprimanded appropriately. In this respect, I note that ASIC has undertaken action against a firm recently for not acting in the client's best interest, which is good to see that this benchmark is now on the regulator's radar.

Enforcement of the existing law is all that is required to solve a lot of the issues that the advice industry currently faces.

2. The second reform I would like to see is the inclusion of direct property as a financial product.

It is a ridiculous situation that to recommend how someone invests $30,000 of superannuation is subject to a completely different regime as to selling someone a $1 million residential property. It is possible that the consumer can elect for an option of 'no advice', but those that believe they are being given some form of guidance or advice should be provided the same safeguards provided to other consumers who purchase financial products.

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.

Persistance reaps the rewards

For Adelaide-based planner, Sally Kolbig, finding the motivation and dedicating the time to completing the CFP® Certification unit are keys to becoming the best planner you can be.

NAME: SALLY KOLBIG CFP®

Educational Qualifications: B.Bus, DFP, JP
Position: Senior Financial Planner
Practice: People's Choice Credit Union
Licensee: Australian Central Credit Union
FPA Professional Practice: Yes
Date of CFP designation: February 2016
Years as a financial planner: 17 years

1. As a CFP professional, how important is community involvement to you?

A balance in life has always been important to me, especially with the long hours that occur as a senior financial planner in many organisations.

As planners, we are involved in the community indirectly via our clients but also directly via the relationships and the natural empathy we develop during the ongoing advice process. I am privileged enough to have worked for People's Choice Credit Union now for almost 15 years and People's Choice have always had a community focus and priority. I believe community involvement to not just be something we do in our spare time, but a responsibility we have as professionals.

2. Why did you decide to become a CFP professional?

I have been studying since I finished school back in 1993, so the idea of continuing my education is nothing new. However, seeing how the industry has changed so dramatically over the 17 years I have been involved has reinforced my decisions.

The CFP designation is something the general public take notice of and understand. The public often draw upon the CFP similarities to the CPA designation made famous by accountants here in Australia, which can only improve the professional reputation of financial planning.

3. How did you approach your studies for CFP Certification?

Initially, back in late 2006, I started the first subject and proceeded to churn through them (certification units 1-4) in two years like clockwork. I really enjoyed all four subjects and to be honest, I gained the most practical information from these than anything else I have studied.

"I really enjoyed all four subjects and to be honest, I gained the most practical information from these than anything else I have studied."

Once I had all four subjects completed, with the last CFP certification still to complete, I found myself lacking the time and the motivation to finish. I had gained the knowledge and used it everyday in my work but couldn't justify the final subject, which was in my opinion a test on the first four subjects.

After a few unsuccessful attempts by running out of time or having too much on my plate, I shelved the idea and didn't bother. After talking to Judy Saunders from the FPA in 2015 in one of our professional development days, where she came to visit, it became very clear that without the CFP designation, employers, legislators and the general public just weren't going to take me seriously in a profession that I love.

So, six years later, I embarked on the final subject and catch up readings, vowing to finish what I had started.

4. As a professional, how important is structured and ongoing education for planners?

Knowing how busy we all are, I believe we need structure and ongoing education, otherwise it will always be pushed aside in place of client needs and new business.

If we don't continue to participate in the education process, we will find our knowledge is outdated and our professional reputation diminished.

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

The amount of legislative uncertainty that exists is impeding our ability to plan for our clients' retirement needs. Many of us have already adapted our advice for those clients who are further away from retirement and have started looking at ordinary investments, more than superannuation, for dependability reasons.

6. What advice do you have for any planner considering becoming a CFP professional?

The knowledge you collect during these modules will make you a better planner - why wouldn't you want to be the best you can be?

Besides that I believe that legislation and barriers to entry for those giving advice will rise quickly as a form of protection for consumers. How can this not be a good thing for our profession? Embrace it and reap the rewards.

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

Lo, money is plentiful
For those who understand
The simple rules of its acquisition.

1. Start thy purse to fattening
2. Control thy expenditures
3. Make thy gold multiply
4. Guard thy treasures from loss
5. Make of thy dwelling a profitable investment
6. Insure a future income
7. Increase thy ability to earn

From *The Richest Man in Babylon* by George S. Clason.

Future ready

The theme of this year's FPA Professionals Congress is 'Future Ready'. The Chair of the Congress organising committee, Delma Newton CFP® talks to *Financial Planning* magazine about the Congress theming and the ways in which planners are adapting to a rapidly changing professional landscape.

Why did the organising committee choose the theme 'Future Ready' for this year's Congress?

There's no doubt that our profession has a lot of change to prepare or. We as financial planners need to be more aware and better informed to embrace the challenges, disruptions and opportunities that lie ahead. We need to stay one step ahead because, as always, the future is what we make it.

Gathering together at the Congress is an important opportunity for financial planners to gain knowledge, engage and share stories that will enable us to face future challenges and realise opportunities.

What does 'Future Ready' mean to you?

For me, it means being forward looking, what is the future going to be like and how can I use the tools we have available to us now to be ready for tomorrow. The future is exciting. Technology is my friend, not my enemy. It provides me and my clients with great opportunities.

The future is, after all, all that we have, so keeping a finger on the pulse of the future is so important. It isn't all about technology though. The changing demographics of our population gives rise to many interesting business planning scenarios going forward.

The ever changing geopolitical dynamics around the world have a very intimate effect on us and our clients. As does the ever changing investment and legislative environment.

As a practitioner, how are you embracing disruption in a rapidly changing professional landscape to ensure you stay ahead?

Personally, I think disruption isn't the right word. I think of the change as more of an evolution. This change has always occurred; the car replaced the horse and buggy and diesel replaced steam. Both of these changes brought us more opportunities and efficiencies.

Delma Newton CFP®

So for me, embracing the technology that we now have available to us improves the outcomes for my clients, and I am able to serve them better. We can have contact with each other no matter where we are in the world for next to no cost.

The number of apps that are available on your phone, tablet and desktop is amazing. Get the right mix and you'll give your clients better service and outcomes, improve your business efficiencies and have a better work life balance.

The changes in the way we communicate through social media means that I am able to showcase my business to many more people in a very price and time efficient manner. And by using the same mediums, my clients can share their personal stories with me in a much easier manner too.

Why should FPA members attend this year's Congress?

The real power and value of the Congress is the profession sharing and connecting together. It's about getting inspired, learning practical ideas, learning from each other, and recharging. The networking at Congress is a great opportunity to not only catch up with colleagues from different areas but it's where we can learn from each other and share ideas.

The sessions are aimed at a very practical level. After each session, FPA members will be able to walk away with practical tips and hints that they'll be able to implement into their business and personal lives straight after the Congress.

Delegates will also have the opportunity to listen and learn from prominent business leaders and thinkers. We also have a number of sessions on ethics. By attending Congress, it's a fantastic opportunity to not only learn and share ideas, but you can also earn up to 15 CPD hours.

What do you think will be the three key things delegates will take away from this year's Congress?

Members will come away from this year's Congress with:

1. Insights shared through our speakers and by networking with other FPA members, that will ensure we are 'future ready' for the benefit of our clients.

2. You will be able to participate in some discussions around ethical scenarios that we have all come across in our practices. This will help give our members an insight into how other planners are dealing with these same issues.

3. You'll have practical tools and ideas that will help you both personally and professionally to be 'future ready'. You'll be ready to help lead, not only our profession, but also our clients into the future and embrace its opportunities.

"Gathering together at the Congress is an important opportunity for financial planners to gain knowledge, engage and share stories that will enable us to face future challenges and realise opportunities."

– Delma Newton CFP®

FPA *Professionals* CONGRESS

PERTH 23-25 NOV 2016

F U T U R E

R E A D Y

CONGRESS REGISTRATION NOW OPEN

The 2016 FPA Professionals Congress will take place in Perth at the Perth Convention and Exhibition Centre on 23-25 November.

The three day program begins at lunch on Wednesday 23 November and finishes at 2pm on Friday.

Before the Congress officially kicks off on Wednesday, there will be an FPA Professional Practice workshop from 11am-2:30pm. This complimentary workshop, which will focus on sharing best practice ideas and strategies, is open to those practitioners working in an FPA Professional Practice.

Networking drinks will follow the opening keynote session on Wednesday at 5pm. Other social events at Congress will include a 'Women in Financial Planning Breakfast', and the highly anticipated Future2 Gala Dinner.

The Congress will offer practitioners up to 15 CPD hours, with workshops covering best practice concepts, technical solutions, leadership and personal growth.

The Congress ticket entitles delegates to the following:

* networking drinks;
* all keynote sessions;
* all workshops (delegates will have an opportunity to pre-select their workshops);
* access to the exhibition hall;
* Congress app; and
* lunch and light refreshments.

There is an additional cost for the Women in Financial Planning Breakfast and the Future2 Gala Dinner.

For more information on the Congress or to register and receive an Early Bird discount (available to 31 August), go to www.fpacongress.com.au

"We are the heart of Future2 and Future2 is the heart of the financial planning profession."

– Susan Grice

The heart of the profession

After nine years at the coalface of the Future2 Foundation, Susan Grice steps down, but not before she shares some of her memories of having worked for the FPA's charitable foundation.

How do you adequately express the zeal, the self-belief and the tireless enthusiasm of an individual, particularly when that person is truly passionate about what they do?

Well, that's the challenge when trying to sum up the remarkable dedication and achievement of Susan Grice over the last nine years as general manager of the Future2 Foundation – a role that she "fell into" back in 2007.

But to understand Susan is to understand Future2, which was set up in April 2007 with its aim of making a lasting difference in the lives of disadvantaged young Australians. Through annual grants to community not-for-profits and charities, Future2 supports Australian youth who are financially and socially disadvantaged, helping them to lead productive, meaningful lives in the community.

But why set up the Future2 Foundation in the first place?

Susan explains: "It was the initiative of a small group of FPA members who felt that as a developing profession, it was really important to have a charitable foundation linked to it. They actually picked up on a visionary idea from FPA life member Gwen Fletcher AM that the profession become actively involved in giving back to the community from where it made its living through its own charitable foundation."

The key members of this founding group included Corinna Dieters (who at the time was Chair of the FPA), Ray Griffin CFP®, Ian Heraud CFP®, John Hewison CFP®, David Haintz CFP® and Peter Bobbin. It was this core group who took the proposal to establish a charitable foundation to the FPA Board.

"The FPA Board was unanimous in its approval of Future2. So, in April 2007, Peter Bobbin wrote the trust deed and we were granted fundraising authority by the NSW Office of Charities. In the following month, Future2 applied for and was granted deductible gift recipient status with the Australian Taxation Office. And so, there we were, up and running by mid 2007."

Susan admits that it was a little bit by default that she "fell into" the role as general manager of the Future2 Foundation, after stepping down from her position as Marketing and Communications manager at the FPA in May 2007. But the timing proved ideal.

"It was a happy turn of circumstance," Susan says. "At the time, I was heading up the Marketing and Communications area of the FPA, and the initiative to set up the Foundation really fell by default into my area. So, I worked with the small group of initiators and founding trustees to get Future2 moving.

"But at the same time Future2 was starting, I decided to leave the FPA to pursue other opportunities. It was then that the FPA approached me to take on Future2 and the FPA's pro bono program on a contractual basis."

It was an opportunity too good to refuse and nine years on, it remains one of the best decisions Susan ever made.

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Susan Grice

She attributes one of her key reasons for taking on the role as general manager of Future2 was the Foundation's specific purpose of assisting community not-for-profit organisations involved in helping disadvantaged young Australians with grants.

"What we wanted to do at Future2 was to provide disadvantaged young Australians with a second chance for a better future.

"It was also something we felt would resonate with the profession and financial planners around the country. We believed that by creating a strong link between the support the Foundation was providing for disadvantaged youth and the financial planning community, we would be able to clearly differentiate Future2 from other charitable organisations. We did this by making it a requirement that every grant application that came from a not-for-profit or charity, had the support of a local financial planner."

The premise of giving back to the community from where planners make their living is a core principle of Future2, to which Susan adds: "And with absolutely no thought of a planner receiving a financial return for their involvement with Future2 and the grant process."

Susan says Future2 not only supports what's already happening in the community between planners and not-for-profits, but actively encourages more of it. She says that with this year's 2016 grant applications, Future2 has made a slight change which puts more focus on the endorsements by financial planners.

"We want to put the initiative for the application with the planner. So, we want the planner to say to the not-for-profit, 'My professional body is linked to a charitable foundation which provides grants for disadvantaged youth, and you have a program that might just attract support. I will nominate your application.' So, this provides the planner with a much bigger and important role in the grant application process, much more than just signing off an application for a grant."

So, today, from its humble beginnings, Future2 has come to represent the 'heart' of the financial planning profession.

It's a view actively supported by Future2 Chair, Matthew Rowe CFP®: "Future2 provides our professional community with a vehicle to bring together our pro bono work and philanthropic activities.

"Future2 embodies what we already see every day in our professional community – financial planners as volunteers of community organisations, treasurers of sports clubs, they sit on boards of not-for-profits, they donate time and money to worthwhile causes – but Future2 does all this as a collective. It is not about the story of any one FPA member, it is all about the stories of 12,000 FPA members.

"Future2 speaks to being a part of a professional community. This sense of community is about being a part of something more than one self; it is about standing with each other and standing up for those who need our help."

Memorandum of Understanding

The original intention of Future2 was to be the charitable foundation of the financial services industry. However, other than the FPA, the support and uptake of Future2 by aligned associations and industry groups was at best, lukewarm.

In early 2013, at the Future2 Board's annual strategic planning meeting, the Board decided that its efforts to align with other professional and industry bodies were evidently not working. But as the FPA had been fully supportive of Future2 since its inception, the Board proposed to the FPA Board a two year Memorandum of Understanding to establish a closer relationship between Future2 and the FPA.

The FPA Board agreed, so what followed over the next two years was Susan at Future2 effectively working increasingly closely with the FPA at all levels. She became a part of the operations team, and worked closely with marketing, member engagement and the finance team.

Significantly, at the end of the initial two year period in May 2015, the Future2 Board was delighted by the progress made by aligning to the FPA. So, it was then proposed to the FPA Board that Future2 establish an open-ended alliance with the FPA as its charitable

foundation and that was officially formalised in August 2015.

By the beginning of 2016, there was no doubt that these two organisations have become integral to each other, so much so that Future2 is now an important element of the FPA's strategic plan.

Challenges

Susan concedes that since its inception in 2007, it hasn't been all smooth sailing for Future2, with numerous hurdles still facing the Foundation.

Surprisingly, one of these challenges is still overcoming the misgivings of some planners that Future2 is trying to supplant their involvement and support of other charities. Susan is adamant this will never be the case.

"This is not about competing for space. What we're about is creating a charitable foundation which is for the profession, and which tells the community that this is the profession that takes very seriously its responsibilities of giving back to the local community."

Susan also adds that over the past nine years it has been a struggle to build planners' understanding of what Future2 is all about, including its aims and objectives. However, she believes awareness is improving, with more planners now actively supporting the Foundation through Chapter events, fundraising initiatives and grant applications.

But ever the optimist, Susan remains stoic, saying "it wouldn't be life without some challenges to overcome". Having said that does she have any regrets leaving the Foundation after nine years?

She is pragmatic in her response.

"Naturally, it's something of a regret that Future2 hasn't raised more funds during my time there, but I guess it's all relative. How much is enough? You can never raise enough funds to provide grants for all the not-for-profits that do such amazing work in the community," Susan says.

"Having worked at Future2, the advantages and the highs I've experienced have far outweighed the challenges and the lows."

Initiatives

Indeed, Susan has been involved in many 'highs' at the Foundation, with a number of fundraising initiatives ranking high on her list of achievements.

Fundraising for the annual Make the Difference! Grants has always been an important part of Susan's remit at Future2. She is particularly proud of the annual Future2 Wheel Classic, which first began in 2010 with a 1,250km cycle ride from Bourke to Sydney. Since then, this event has never looked back, continuing to grow from year to year. In the six years this event has taken place it has raised a total of $585,000 (after costs) for Future2. An amazing achievement by the riders, their supporters and the corporate sponsors.

"The Wheel Classic in itself is an interesting case study," Susan says. "Its genesis came off the back of three years of tough times for the Foundation. When we first started out in 2007, we had high expectations of establishing the Foundation as the charity of choice not just for the FPA but also for other aligned industry and professional bodies. But unfortunately, for various reasons, that just didn't happen.

"However, we have always had a very close relationship with the FPA, which has provided financial accounting support, a space within its office for Future2 to operate from, and a channel to communicate to FPA members.

"So, with much less limited support than we had initially envisaged, by 2010 we were struggling. Although we were raising funds through FPA members and Chapter events, we weren't having much traction with the licensees and the big end of town."

Against this background, two trustees of the Foundation – Ray Griffin and Peter Bobbin – decided to cycle from Bourke to Sydney in August 2010, raising approximately $84,000 for Future2. And the rest, they say, is history.

By the third year, the Wheel Classic had morphed from a low key event, to a more professional event. That year it attracted over 30 riders, many of whom were FPA members, who, along with corporate sponsorship, all helped fundraise for the event.

In the six years since its inception, the Future2 Wheel Classic has travelled from Bourke to Sydney, Sydney to Melbourne, Melbourne to Sydney, Melbourne to Adelaide and Sydney to Brisbane - in total raising $585,000 to help young Australians doing it tough. Not a bad result from its humble beginnings in 2010.

Aware that many FPA members didn't cycle but who still wanted to participate in fundraising activities, the Foundation launched the Kilimanjaro Challenge last year, with members climbing the world's highest freestanding mountain earlier this year and raising $38,500. And if running is your thing, members can sign up for the New York Marathon on 6 November later this year.

"When organising these events, we're trying to be as inclusive as we can be of the FPA membership, providing a variety of fundraising opportunities," Susan says.

Grants

But Future2's reason for being, its raison d'etre, is to raise and distribute funds in the form of grants to not-for-profits working with disadvantaged young Australians.

Through its fundraising initiatives and with the support of the FPA Chapters, the Foundation issued its first Future2 Make the Difference! Grants in November

> "If I had to describe Susan in one word it would be resilient and if I had to describe her contribution to Future2 it would be herculean."
>
> – Matthew Rowe CFP®

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2007. These grants have been allocated annually ever since.

To date Future2 has supported approximately 50 not-for-profit organisations and has committed funds of $613,000. It's not a bad result for a charitable foundation coming from a standing start in April 2007. And it's an achievement that Susan is understandably proud of.

"What we've been very careful to do is keep our operating costs down to an absolute minimum and the trustees have also been mindful of starting to build a capital base to ensure the sustainability of the Foundation, even through any lean years ahead."

Memories

Having been so passionately involved with Future2 for the past nine years, Susan shows no doubt when nominating her standout memories at the Foundation as always being the opportunity to meet the grant recipients.

"We've been able to develop real relationships with most of the grant recipients. And there is a potential for that to happen all around the country, especially where members are strongly involved. I'd like to see this happening more between members and grant recipients," says Susan.

And what of any notable memories out on the road fundraising for the Foundation?

Susan laughs as she recalls a particular incident back in August 2010.

"This was our first Wheel Classic. On the first day we headed out from Bourke to Cobar, which was practically a straight road stretching 160km. Red earth either side, great blue sky, scrub – it was quintessential Australian outback.

"We were about 30km outside of Cobar. It was about midday and I was ahead of the riders driving the support vehicle. As I was slowing down to stop at an approaching crossroad to take video footage of the cyclists, two emus appeared alongside the verge of the road. As I drew level with them, they suddenly decided to cross the road right in front of my vehicle. Even though I was travelling at about 25km, I couldn't avoid hitting one of the birds. I stopped to render assistance but unfortunately the emu was dead. I felt terrible about what had happened.

"So, we made our way into Cobar. As I checked in to the motel we were staying at, there was a policeman waiting in reception with a piece of paper in his hand. He turned around as I entered and said: 'Would you be Susan Grice?'. My heart dropped. I couldn't believe how quickly word travels on the 'bush telegraph'. Naturally, I thought I was in trouble. He asked me if I had an encounter with an emu, and then promptly gave me his police report for the insurers.

"It was a huge relief and typical of the warm-heartedness and generosity of the people we met in country Australia – many of whom, on hearing what we were doing, handed over cash donations. The emus on the Cobar road is one of those memories I'll never forget!"

Profession

And in terms of memories, Susan is particularly grateful and full of praise for the amazing support provided to the Foundation by the Future2 Board, Chapter committees, the FPA and the hundreds of people who have donated their time and expertise to Future2.

"That really has been inspiring to me," she says. "People who have extremely busy lives have committed themselves and donated vast amounts of time, whether it's to ride in and raise funds for the Wheel Classic, or whether it's to sit on the Board or sit on various committees. They have given and continue to give enormous amounts of their personal time because they are also passionate about what

What is Future2

The Future2 Foundation aims to make a lasting difference in the lives of disadvantaged young Australians. Through annual grants to community not-for-profits and charities, Future2 supports Australian youth who are financially and socially disadvantaged, helping them to productive, meaningful lives in the community.

The Future2 Foundation is the official charity of the FPA.

To date, Future2 has assisted over 50 not-for-profits and charities, providing over $613,000 in community grants.

The Future2 Board has implemented a strategy to achieve goals by 2017 that will make the Foundation sustainable, while also expanding engagement with the financial planning community and grant making. These include:

- Future2 to build a corpus to double the amount of grants offered over three years.
- Future2 to achieve a high level of engagement with donors, and between donors and grant recipients.
- Future2 is accepted as the charity of choice by FPA members.
- Future2 to become an integral part of FPA Chapters.
- Future2 to establish mutually beneficial and longer term relationships with grant recipients.
- Future2 to increase annual grants to $250,000 by the end of 2017.
- Future2 to continue building the active participation of trustees, ambassadors, committees and volunteers.

For more information, go to www.future2foundation.org.au

Future2 is trying to do. These people are the heart of Future2 and Future2 is the heart of the financial planning profession."

Susan passionately believes that Future2 has a symbiotic relationship with the financial planning profession. She says this relationship sends an enormously important message to the community about being a profession and what a professional is – not just acting in the best interests of clients but also acting in the best interests of the whole community.

"Future2 is a vehicle through which planners can do that and through which we can send that message to the community. It's a long-term commitment which will change the lives of thousands of young Australians for the better."

Susan is also quick to pay tribute to one particular individual – Steve Helmich – who, since its inception, has always been a strong advocate of the Foundation.

In 2009, Steve was appointed Chair of Future2 - a position he held for the next six years. In fact, through Steve's efforts at AMP, he was instrumental in securing a $100,000 donation from the wealth management company for Future2 in October 2007, which helped to boost Future2's $10,000 seed funding from the FPA.

"We were fortunate that Steve stepped in as Chair at an absolutely crucial time for Future2," Susan says. "It was a time when the future of the Foundation was not secure.

"Steve's contribution as Chair over six years made an incalculable contribution to Future2 at various levels. Once Steve took the helm, the Future2 Board began working more effectively together. It had a much greater sense of purpose. It was Steve's leadership that made the difference.

"We began to build and broaden the Board membership, we introduced risk management and other initiatives that have underpinned the growth of Future2. I'll always remember his connection with our grant recipients – I think that, for Steve, meeting the young people was truly inspiring."

But while Susan is quick to praise the many people who have been instrumental in developing and sustaining the Foundation over these past years, others praise Susan's dogged dedication and determination in driving Future2.

"I don't think anyone on the inside of Future2, from the Board to our volunteers, underestimate the impact Susan has had on Future2," says Matthew Rowe.

"Susan has been there since day one and her efforts have been nothing short of amazing. I believe that Future2 survived the early years and has grown to where it is now in no small part because of Susan's passion, conviction and resolve. Our Foundation owes her an immense debt. If I had to describe Susan in one word it would be resilient and if I had to describe her contribution to Future2 it would be herculean."

Future

After nine years with the Foundation, Susan leaves behind a substantial legacy at Future2. So, how does she hope the charitable organisation of the FPA develops into the future?

"Obviously, I'd like to see Future2 grow, to be bigger, to have more funds for grants and to be sustainable. But equally as important, I'd like to see financial planners really take ownership of Future2 as their charitable foundation and have pride in it. I want them to know they are making a real difference in the lives of thousands of disadvantaged young Australians," Susan says.

"Future2 needs to belong to the profession but in order to do so, it needs to be felt in the hearts of members."

It's a sentiment shared by Matthew.

"We want Future2 to be known as the charitable foundation of the FPA and to be recognised as an organisation that, through FPA members, helps the disadvantaged in our community. We want to link our fundraising programs and grants with local FPA Chapters and to involve and support FPA members in grassroots community activities.

"We want Future2 to speak to the generosity of spirit that sits inside financial planners as, in my opinion, what we do every day in our profession is genuinely about making a positive difference in the lives of our clients," he says.

"In essence, we want Future2 to unite Australia's financial planning community in making a positive difference in the lives of those who need it most."

Susan agrees. "We are the heart of Future2 and Future2 is the heart of the financial planning profession, and it's with that thought that I wish Future2 and the FPA every success heading together into the future."

"We want Future2 to unite Australia's financial planning community in making a positive difference in the lives of those who need it most."

– Matthew Rowe CFP®

Keep an eye on the income

The price hardly matters

We live in a society that is obsessed with the sharemarket and the price of shares. However, as Tony Gilham writes, it's time we tuned out the daily noise generated by the financial media and focus instead on the profit growth and dividends paid by the companies that clients are invested in.

Generally speaking, investors on the whole are obsessed with the price of their investments, be it shares, property, their super fund balance, and even sometimes, the gold price. And there is little wonder why, because we have been taught to focus on the price, and virtually all reporting in the financial media only focuses on the price of the investments, and hardly ever refers to profit growth or dividends paid.

When we have discussions with our SMSF clients, many of them will bring up the recent poor performance of some of their shares, it might be BHP Billiton, Woolworths or even the Commonwealth Bank, and they are dismayed that the share price has gone down.

Tony Gilham

Conversely, some share prices have been going up strongly in recent years, including Telstra, CSL and Wesfarmers, and many clients, excited with this, usually want to add more to that investment.

But it's rare that a client wants to bring up the subject of the interest or distribution paid, or the dividend rate, and how that's tracked over the last few years.

And people are obsessed with house prices. According to the newspapers, your house has probably gone up $50,000 in the last 12 months, but guess what?

- Unless you've spent big money on renovations, it's exactly the same house;
- It's in exactly the same location (it's not in a better location); and
- It's performing exactly the same function as it performed last year.

Yes, it might be worth $50,000 more, and that's because someone out there wants to pay you $50,000 more than you might have got 12 months ago, and on the surface that sounds good, but if you sell your house, you'd probably have to buy another one, and not only would you pay maybe another $50,000 or more for the new house, you'll also pay the State Government a king's ransom in stamp duty for the pleasure of swapping houses.

Stay focused

If you look at the news on television every night, the media only ever talk about movements up or down in share prices or the All Ordinaries Index. But a 1 per cent or 2 per cent change upwards or downwards in the share price is basically irrelevant (unless you happen to be selling at the time), and there's hardly ever any mention of dividends paid.

Most investors, quite rightly, conclude that sharemarket investing is a very risky and volatile game (as prices do change every day), and we all start to think like day traders - elated when

our shares might go up, say, 1 per cent that day, and dejected when they go down the next day.

But if you are a serious medium to long-term investor, hoping to become financially independent and relying on your investments to generate a reasonable income in retirement, then daily fluctuations in share prices are almost irrelevant. However, what is particularly relevant is the dividend income you are receiving and how that's changing from year to year.

Warren Buffett once said that the basis of a good investment portfolio is to buy shares in good companies, and if they continue to be good companies, hold those shares forever.

When people finish their working career and go into retirement, they start to very quickly focus on the income generated across their investment portfolio, and many of our clients now have a very good understanding of the level of income generated by the portfolio and how that is changing from year to year. In fact, we track this diligently with most clients, and we report income generated on a quarterly basis, and at half yearly and yearly reviews.

Volatility

And because the sharemarket can be volatile from time to time, it's only natural that many investors seek the safety and security of cash and term deposits, where there's virtually a nil probability of price movements (capital values going up or down), and a relatively high degree of predictability as to the income generated across their portfolio.

Volatility in cash and fixed interest investments comes from the fact that interest rates do change over a period of time, and many investors who became too cautious during and soon after the Global Financial Crisis, are now realising that interest earning investments can actually be much more volatile than sharemarket investments, from an income generation point of view.

In Table 1, I'm showing the share price of the 10 largest companies in Australia, for the financial year beginning on 1 July 2006, a complete full financial year before the onset of the GFC, and then the market value of those shares on 30 June 2015, nine years later.

Over this nine year period, we suffered what is now known as the 'GFC', which turned out to be the second largest sharemarket decline in 100 years, and certainly enough to convince some investors that the sharemarket is just 'too risky'.

Table 1

The table is very simple. It assumes that the investor buys one share in each of the 10 largest companies in Australia, on 1 July 2006, and holds those shares through to 30 June 2015, a period of exactly nine years.

Some observations from Table 1

- One share in each of the 10 companies cost $278.97, and nine years later, those shares were worth a total of $405.82.

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TABLE 1

Company	Share Price 1/7/2006	Divs Paid 2006/07 (cents)	Divs paid 2009/10 FY (cents)	Divs paid 2014/15 FY (cents)	Share Price 30/6/2015
CBA	$44.41	237	235	416	$85.13
WBC	$23.28	123	125	185	$32.15
BHP[1]	$29.00	50.05	95.15	147.02	$28.84
ANZ	$26.59	131	108	181	$32.20
NAB	$35.16	171	147	198	$33.31
TLS	$3.68	28	28	30	$6.14
WES	$35.33	235	115	204	$39.03
CSL[2]	$17.67	89	75	139.24	$86.47
WOW	$20.15	66	109	139	$28.34[3]
WPL	$43.70	126	110	303.23	$34.23
TOTALS	*$278.97*	*1256.05c*	*1147.15c*	*1942.49c*	*$405.82*
Average Div Yield		4.50%	4.11%	6.96%	
Change				-8.67%	+52.34%

** Franking credits not included – just the cash dividend.*

Note, not every stock dividend was 'fully franked', and as an example, in the first year, the dividend on CBA at 237cents, was a yield of 5.33 per cent, but including franking credits, the yield was 7.66 per cent.

Eight of the 10 stocks were fully franked over the whole nine years, CSL only had a very limited amount of franking, and NAB was almost fully franked, but on a couple of occasions, only 80 per cent franked.

On average, the portfolio was 90 per cent franked (probably more), so the yield in the last year, at 6.96 per cent, was equal to a grossed up yield of 9.64 per cent, which is massive compared to a term deposit.

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- The dividend in the first financial year was 1256.05 cents, which equates to a cash yield of 4.50 per cent on the outlay of $278.97.

- For the financial year immediately after the GFC, cash dividends paid were 1147.15 cents, equating to a cash yield of 4.11 per cent on the initial outlay of $278.97.

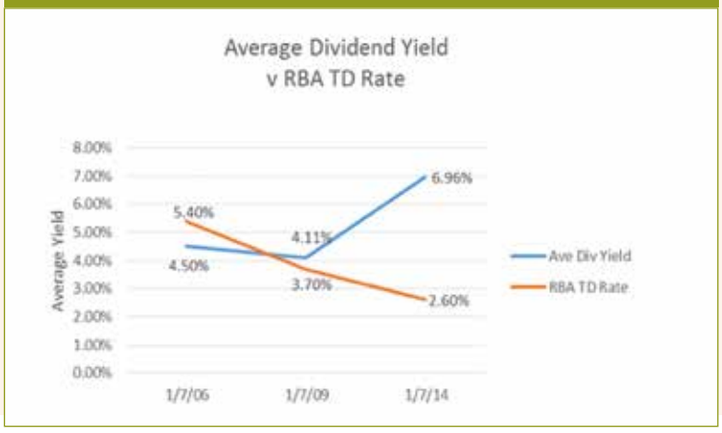
- Yes, the GFC was the second worst downturn in Australia in 100 years, but the cash dividend yield declined by less than 0.5 per cent (0.39 per cent to be exact), which was a decline in total income for the investor of 8.67 per cent.

- But the total dividends paid for the 2014-15 financial year were 1942.49 cents, equating to a cash yield of 6.96 per cent on the investor's total outlay of $278.97.

- Over the full period through to the end of the 2014-15 financial year, the total cash income was up an impressive 52.34 per cent.

In Chart 1, we plot the dividend yield over three observations for the 2006-07, 2009-10 and 2014-15 financial years (blue line), compared to the RBA average term deposit rate from banks in Australia for a one year term deposit (red line).

CHART 1



So what do we see here in Chart 1?

On 1 July 2006, the average term deposit rate was 5.40 per cent, compared to the dividend rate on the top 10 stocks of 4.50 per cent. Yes, the term deposit investor had a higher cash yield, and capital stability, and as it turns out, the term deposit investor didn't have to face the brunt of the GFC (which commenced in the second half of 2007), but over time, this investor seems to have done much worse than the sharemarket investor investing in the top 10 stocks.

Now, when you go to the mid-point in the chart on 1 July 2009, the sharemarket investor generated a return in the coming 12 months of 4.11 per cent, a little bit down on their starting point of 4.50 per cent, but the term deposit investor was 'knocked for six' with the one year term deposit rate down to 3.70 per cent, much lower than the starting point of 5.40 per cent.

So, as a result of the GFC, the sharemarket investor saw their cash income decline by 8.67 per cent (to 4.11 per cent), but the term deposit investor saw their income decline by 31.48 per cent (down to 3.70 per cent) and all of a sudden, was worse off than the sharemarket investor.

But after that, it only gets worse for the term deposit investor.

These 10 big Australian companies started a profit growth recovery after the GFC, and by the time that we got to the end of the 2015 financial year, dividends paid for the sharemarket investor equated to 6.96 per cent of their initial capital invested, whereas the term deposit investor was down to a very tiny 2.60 per cent per annum.

Putting some figures around that, let's assume investor A invests in the top 10 stocks on 1 July 2006, and investor B puts their money in term deposits, in each case, with $1 million invested at the outset. (Refer to Table 2.)

You probably won't be surprised, but there are a lot of Investor A and Investor B type clients out there. Occasionally, we see some investors with the vast majority of their wealth invested in Australian shares, and at other times, we will see an investor with a vast majority of their wealth invested in cash and term deposits, and the differences in their results over the last nine years is just astonishing.

For the last financial year, Investor A generated an income of $69,600 (and if you added franking credits, it would make the figure in excess of $80,000), whereas the term deposit investor ended up with only $26,000.

But look at the capital value at the end of June 2015. Investor A has a portfolio worth $1,454,700 and the term deposit investor still has their original capital of $1,000,000, which naturally, in present day terms, has less buying power.

There is absolutely no question that Investor A, investing in the Top 10 stocks on the Australian sharemarket nine years ago, is in a far superior position. Investor A has virtually three times as much income coming in each year, and a portfolio value that has increased by more than 45 per cent, whereas the term deposit investor still only has their original capital.

Yes, of course, the sharemarket investor had to go through a lot of pain during the GFC, with share

prices tumbling in some cases by more than 50 per cent, but in June 2015, eight of the 10 stocks were worth more than they were worth nine years ago, and in some cases, substantially more.

Over the nine year period, the sharemarket investor has enjoyed average capital growth of 4.25 per cent per annum (excluding dividends paid), the current dividend yield on his portfolio was 6.96 per cent, and in fact, average dividend growth from the first financial year to the last financial year has averaged 5.40 per cent per annum, with three of the stocks having more than doubled their dividend payouts over the last nine years.

So what about the next 10 years?

Investor A, investing in the top 10 stocks, has capped off a year with a yield of 6.96 per cent. That's the actual cash yield this investor received on their outlay on 1 July 2006.

As at 30 June 2015, the average dividend yield across the Australian sharemarket was 4.7 per cent, actually quite similar to the starting yield of the top 10 stocks back in the 2006-07 financial year. Over the eight financial year periods from 2006-07 to 2014-15, dividend growth was 5.40 per cent per annum (which is actually below the long-term average of nearly 7 per cent per annum), and we don't think that things will be too much different over the next 10 years.

We expect good quality Australian companies to continue to increase their profitability and dividend payments, and it would be no surprise to us to see a repeat of the last nine years, certainly up and down market volatility, but probably a good solid growth in dividend yields in the years to come.

TABLE 2

	Income 2006-07 Financial Year	Income 2009-10 Financial Year	Income 2014-15 Financial Year	Capital Value 30-6-2015
Investor A				
$1,000,000 Top 10 Stocks	$45,000	$41,100	$69,600	$1,454,700
Investor B				
$1,000,000 Term Deposits	$54,000	$37,000	$26,000	$1,000,000

But the poor term deposit investor has a starting yield at about 2.60 per cent per annum, and not likely to get any better in the next two or three years, and virtually no chance of catching up to the yield generated by the sharemarket investor over the next 10 years. Plus, the term deposit investor is stuck with his initial capital of $1 million, which maintains its face value, but naturally loses its purchasing power as the years go by.

In conclusion

Since 2007, we've suffered the second largest market downturn in the last 100 years, but an Australian sharemarket investor investing in good quality Australian companies is doing far better than a conservative term deposit investor.

Now, we're not for one moment suggesting that you should cash in all of your term deposits and invest 100 per cent of your wealth into Australian shares, we're just comparing what has happened with Australian sharemarket investments and term deposits over the last nine years, and we haven't even considered other asset classes such as international shares, property trusts and so forth.

There will be more volatility in the years ahead (there always is), and some investors will feel uncomfortable, but you've got to focus on the long-term and the income generated from your portfolio, not the day-to-day movements. Most inexperienced investors miss, or don't understand, a couple of very significant differences between sharemarket dividends and term deposit interest. These are:

- The Australian economy is getting larger. Many companies within our economy are also getting larger and becoming more profitable and paying bigger dividends, and their share prices are going up.

- Many investors don't understand the benefit of franking credits on Australian shares. In Table 1, we show the cash yield for the sharemarket investor in the 2014-15 financial year at 6.96 per cent, but when you add franking credits to that, the actual cash yield would be well in excess of 8 per cent.

- A term deposit investor getting, say, 2.6 per cent on their term deposit, thinks that they are making a 2.6 per cent return. But they forget that the spending power of their capital base of $1 million is diminished by the effects of inflation, so in effect, interest paid is only offsetting the capital loss through reduced spending power.

- The Australian economy has a long-term record of growing the size of its economy at about 3 per cent above the rate of inflation (or nominal growth between 5 per cent and 6 per cent per annum), and the large companies operating within that economy should be growing at the same rate (some more, some less), and hence growing their turnover, profitability and dividends paid.

- When you invest in a term deposit, there is no growth factor involved, you're simply lending your money to an institution (such as a bank) for a fixed rate of return, realising that the spending power of your capital invested is being diminished by the rate of inflation.

Tony Gilham CFP®, Founding Partner, GFM Wealth Advisory, Gilham Financial Management.

Footnotes

1. Adjusted for South 32 demerger.
2. Adjusted for corporate action/ share split in August 2007.
3. Adjusted for corporate action – December 2012.
4. Franking credits not included – just the cash dividend.

The busy planner's secret to lifelong clients

Providing added value to your clients can be as easy as simply staying in touch with them. Gihan Perera provides four easy tips to do just that.

In a business environment where clients have more choices and information than ever before, keeping in touch with clients – and providing value – is not just about FoFA, the FSI Report, the Life Insurance Framework, the PJC Inquiry or compliance – it's just good business.

Do your clients only hear from you when you send them a statement or invoice? If so, you can do more – much more – to show them you're a valued partner in planning their financial future. Focus on touch points that give them real value in a non-intrusive way.

Here are four things you could do regularly.

1. DAILY
Do something thoughtful

Every day, take 10 minutes to do something thoughtful for one of your clients – for example, send a Happy Birthday text, forward an interesting article you found, 'like' or comment something on Facebook or LinkedIn, send a thank you email, or introduce two people in your network to each other.

TIP: Use Nimble to keep track of your clients and have it prompt you with names of people/ clients you haven't contacted in a while.

2. WEEKLY
Send a thank you postcard

In an increasingly digital world, you will stand out by sending something physical. Print your own postcards with, say, a picture and an inspiring quotation. Use your own photographs or buy them online (Pixabay.com is free, and both BigStock.com and iStock.com are very affordable). Add text to the picture using PowerPoint and save the slide as an image. Then send it to a local printer, along with your contact information for the back.

3. MONTHLY
Write a high-quality article

Write an educational article for your monthly client email newsletter. This is something more detailed and valuable than the articles you publish in public places, like your blog or public email newsletter.

Even if you're not an expert writer, it doesn't take much to write a useful article, because you know so much that your clients want to know. You may even decide to write up a client case study, revealing how your advice helped the client. Remember though, you'll need to protect the identity of the client, so don't use their real name. It also doesn't hurt to seek approval from the client to publish their case study.

For inspiration, go to your local newsagent, pick up the latest issue of a popular magazine, look at the headlines on the cover, and adapt one of them for your use.

For example, a recent issue of a popular women's magazine had these headlines:

- Bye-Bye Belly! 3 new easy ways to lose it
- Party dresses that flirt for you
- Cameron Diaz – Even more reasons to love her

With a bit of creativity, these could become:

Gihan Perera

- Bye-Bye Debt! 3 new easy ways to lose it
- Super strategies that grow for you
- Self-Managed Super Funds – Even more reasons to love them

Of course, you have to be careful what you write, to avoid breaching legislation, dealer group rules, and so on. But don't let that stop you from writing at all.

4. QUARTERLY
Run a client webinar

Every three months, run a special client-only webinar to give your clients a market briefing. You can present it yourself using internal experts or (better) invite external experts. Use this webinar to inform and educate clients, not to promote yourself. But of course, you promote yourself automatically by positioning yourself as an expert, an authority and a trusted adviser.

Two bonus ideas

1. Invite key referral partners as expert guests, and ask them to invite their clients as well. It makes them look good to their clients, makes you look good to yours, and gives prospective clients a taste of what you do.

2. Keep the webinar private for your clients (that's the point – to add value to them), but allow them to each invite a friend or two. This is better than just asking clients for referrals, because the client is doing a favour for their friend, not for you.

Which of these ideas can you use?

Even if you can't use these exact ideas, don't discard them too soon. For example, if you don't know how to run webinars, take the time to learn – it's not hard, not expensive, and the benefits far outweigh the cost of the initial learning curve.

Whatever you do, make sure you're creating regular touch points with clients, to keep adding value and reinforcing your role as their partner on their financial journey.

Gihan Perera is a futurist, conference speaker, author and consultant who gives business leaders a glimpse into what's ahead – and how they can become fit for the future. Since 1997, he has worked with business leaders, thought leaders, entrepreneurs, and other change agents – helping them with their strategy for thriving in a fast-changing world. He is the author of 'The Future of Leadership' and 10 other books.

To answer questions
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ALENA MILES
AMP

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- Anti-detriment payment
- Death benefit income streams
- Testamentary trust

Life insurance through superannuation and more in relation to death benefits

When an adviser sits down to discuss life insurance cover with their client, it's an ideal time to have a more comprehensive discussion about estate planning. In this article, we look at the advantages and disadvantages of various options of structuring the receipt of death benefits in superannuation.

It is well known that binding nominations provide certainty as to who a superannuation death benefit is paid to. Where the client has a partner and young children, we often see binding nominations made in favour of each partner. Some clients may not realise that alternatives, other than nominating their partner, may be available and that there may be potential tax, asset protection and Centrelink advantages in considering these options.

These alternatives can be particularly important to discuss where life insurance is held within the superannuation fund, as the potential payout can be significant.

As a starting point, it is crucial that the client understands that their superannuation death benefits (including life insurance proceeds) can only be paid directly from the superannuation fund to someone who is either their superannuation dependant or legal personal representative (LPR). The only exception is in the rare situation where no superannuation dependant or LPR exists.

A superannuation dependant is defined in superannuation law and is also referred to as a SIS dependant. SIS dependants include:

- the deceased's spouse (including same or opposite sex de facto) but not a former spouse;
- the deceased's child of any age;
- any other person who was financially dependant on the deceased just before he or she died; and
- any other person with whom the deceased was in an interdependency relationship just before he or she died.

Under a valid binding nomination, the trustee is bound to pay to the nominated SIS dependant or the nominated LPR of the estate. Once the funds are received there are generally very limited, if any, planning opportunities to tax-effectively transfer the assets to another person or entity.

This is why a comprehensive discussion in the planning stage can be beneficial, and should include an outline of:

- all the client's beneficiaries who are able to be nominated;
- various forms in which the death benefit can be received by those beneficiaries; and
- the advantages and disadvantages of each option.

Case study: Nomination options

Melissa and John (both in their 40s) are married and have two children. Linda (age 12) and Ben (age 10). John works as a financial analyst, earning $110,000 per annum, and Melissa works as a graphic designer, earning $70,000 per annum. Apart from their family home, owned as joint tenants, the couple have no other significant assets.

Following their financial planner's recommendations, John and Melissa take out life insurance through their respective superannuation funds and also execute binding nominations to each other.

Sometime after this, Melissa is diagnosed with a brain aneurism and passes away within two months of diagnosis.

The trustee of Melissa's superannuation fund, in accordance with her binding nomination, pays her death benefit

of $770,000 (an accumulation account of $120,000 and life insurance of $650,000) to John as a tax-free lump sum. In addition to Melissa's accumulation and life insurance proceeds, John also receives an anti-detriment payment of $21,180*, bringing the total tax-free death benefit to $791,180.

** Using the ATO formula method, where a member's eligible service period in the fund is after 30 June 1988, the gross anti-detriment payment will always be 17.65 per cent of the taxable component (less insurance proceeds).*

An anti-detriment payment is a 'top up' payment, made in addition to the death benefit by some superannuation funds. It broadly represents a return of contributions tax paid. It is only available on the portion of the death benefit received as a lump sum by a spouse, former spouse or child of any age. The anti-detriment payment is calculated on the taxable component of the death benefit only, excluding any insurance proceeds.

** It should also be noted that as part of the 2016 Federal Budget announcement, the Government has proposed to remove the anti-detriment deduction from 1 July 2017. This proposal is not yet law.*

Once John has repaid the home loan, he invests the remaining amount (around $500,000). As John continues to work, he pays tax on the earnings at his marginal tax rate of 39 per cent, including Medicare levy. If we assume a 6 per cent earnings rate, John's investments will produce $30,000 per annum. John will pay tax of $11,700 (ie, $30,000 x 39 per cent), leaving a net amount of $18,300.

John cannot invest these funds in the children's names tax-effectively at this stage. If any of these funds are invested on behalf of Linda and Ben, the penalty tax rates applicable to passive income earned by minors will apply, with no access to the Low Income Tax Offset (LITO).

Assuming that the fund rules allow it, John can instead elect to start a death benefit pension with Melissa's death benefit. A death benefit income stream can be paid to:

- the deceased's spouse (including de facto and same-sex partner);
- the deceased's child under age 18, or aged 18 to 24 (inclusive) and financially dependent on the parents at the time of death;
- the deceased's child of any age where the child is permanently disabled;
- any other person who was financially dependent on the deceased at the time of death; and any other person with whom the deceased had an interdependency relationship at the time of death.

As both Melissa and John are under age 60 at the time of her death, the income payments will be taxed at John's marginal tax rate less a 15 per cent tax offset. As John continues to work full-time and earns other income, this option does not achieve the most tax-effective outcome.

Further, John will lose the anti-detriment benefit payment of $21,180 because it is not payable where a death benefit is taken as a pension.

Three years down the track, John enters into a de facto relationship with Lucinda, who has two young children of her own. This relationship subsequently breaks down and in settlement, Lucinda receives a significant portion of the remaining investments, depriving John and his children, Linda and Ben, of part of their inheritance.

What other options could have been considered?

A number of alternative nomination options could have been discussed with John and Melissa.

A portion of the death benefit could still be directed to the surviving spouse to repay the mortgage, but other options for the remaining amount could also be considered, including:

1. Nominating the children - lump sum

Upon Melissa's death, Linda and Ben can receive their portion of the death benefit as a tax-free lump sum. A full anti-detriment payment will be payable on that amount[1].

The funds can subsequently be invested for the children. John will be the legal owner of the investments on Linda and Ben's behalf until they turn 18. However, Linda and Ben, as

Continues on page 30

Table 1

Benefits	Issues to consider
Earnings taxed at adult tax rates with access to the $18,200 tax-free threshold and LITO, meaning each child can earn up to $20,542 per annum tax-free.	The children will get access to the remaining capital when they turn 18. Many parents may be concerned that at that age, the children may not make the best financial decisions in respect of their inheritance.
Greater asset protection from relationship breakdown.	
Potential Centrelink advantages if John decides to apply for family assistance payments, as the income belongs to the children and will not be assessed when calculating such payments.	

Continued from page 29

beneficial owners, will be taxed on the investment income derived. Because the source of the funds is the superannuation death benefit paid directly to the children, child penalty tax rates will not apply to this income. (See Table 1.)

2. Nominating the children - death benefit income streams

Upon Melissa's death, assuming the fund rules allow this, Linda and Ben can start child account based pensions with their portion of the death benefit. (See Table 2.)

3. Nominating the executor of the estate - testamentary trust

This option involves nominating the LPR (eg, the executor of the estate) to receive the remaining death benefit. John and Melissa's wills need to be updated to establish a discretionary testamentary trust with the superannuation proceeds. Upon Melissa's death, John, as the trustee, can distribute income to the children and/or himself. Income is taxed at adult rates, rather than penalty rates, if distributed from a testamentary trust to minor children.

Under this option, using the facts of the case study, it is likely that no tax would be payable on the investment earnings/trust distributions in the hands of the children. (See Table 3.)

What is the optimal solution?

The optimal solution depends on the client's specific

Table 2

Benefits	Issues to consider
The taxable portion of the pensions will be taxed at adult rates but will attract a 15 per cent tax offset. With LITO and assuming no other taxable income, each child can draw income up to $49,753 per annum without paying tax (but paying a small amount of Medicare levy).	No anti-detriment payment on the amount taken as an income stream.
Tax-free earnings within the pension.	The children can generally access the remaining capital at the age of 18. Many parents may be concerned that at that age, the children may not make the best financial decisions in respect of their inheritance.
Greater asset protection from relationship breakdown.	The remaining capital generally has to be commuted to a tax-free lump sum by age 25.
Potential Centrelink advantages if John decides to apply for family assistance payments, as the income belongs to the children and will not be assessed when calculating such payments.	
Full access to the proceeds - there is no maximum income payment.	

Table 3

Benefits	Issues to consider
Earnings taxed at adult tax rates with access to the $18,200 tax-free threshold and LITO, effectively meaning each child can earn up to $20,542 per annum tax-free.	More expensive to set up and administer than the other options.
Potentially greater asset protection if John's subsequent relationship breaks down.	Introduces complexity.
Potential Centrelink advantages if John decides to apply for family assistance payments, depending on the distributions.	
Greater control for the surviving parent.	
Ability to nominate a suitable age when Ben and Linda can access the remaining capital/gain control of the trust.	
Depending on drafting and the beneficiaries' circumstances at the time of death, the tax-free death benefit and a full anti-detriment payment may still be available.	

circumstances. There is no 'perfect' solution and each alternative has benefits and drawbacks.

The planner's role is to educate the client on the options available to them and various issues to consider. The client, based on his/her goals, and if required, in consultation with the estate planning lawyer, will make a decision on the most suitable way to structure their beneficiary nominations.

After understanding the options available to them, John and Melissa may decide that a combination of the above options may be best for them. For example, John and Melissa may nominate:

- a percentage of the death benefit directly to each other. When one of them dies, the death benefit can be received as a tax-free lump sum. The anti-detriment payment will also be available on this amount.
- a small percentage of the death benefit directly to the children. Upon the parent's death, the surviving member of the couple will seek advice and may decide to elect to start child account based pensions for Linda and Ben.
- a large percentage of the LPR (the executor of the estate). They will then update their wills to set up a discretionary testamentary trust with the superannuation proceeds. The surviving parent can control the trust and distribute income tax-effectively to the children. They can also decide on the appropriate age for the children to access the remaining capital and gain control of the trust.

The advantage of this blended approach is that it gives John and Melissa a mixture of asset protection, tax effectiveness and control.

Constant review is paramount

Even if the client's superannuation funds offer non-lapsing binding nominations, planners need to consider whether their nomination is appropriate at every review. Clients' circumstances change and this often requires modifications to the nominated beneficiaries/percentages allocated. Examples of changes that should trigger an immediate review of the beneficiary nominations include:

- children turning age 18 and becoming financially independent;
- marriage or entering a de facto relationship;
- separation, divorce or ending a de facto relationship; and
- change in debt levels.

Alena Miles, Technical Services Manager, AMP.

Footnote

1. As part of the 2016 Federal Budget announcement, the Government has proposed to remove the anti-detriment deduction from 1 July 2017. This proposal is not yet law.

QUESTIONS

1. Using the ATO formula method, where a member's eligible service period in the superannuation fund is after 30 June 1988, the gross anti-detriment payment will always be 17.65 per cent of the taxable component (less insurance proceeds).

a. True.
b. False.

2. Nicole is due to receive a death benefit from her deceased husband under a binding nomination. In deciding how to deal with the proceeds, which of the following is correct?

a. Nicole can ask the superannuation fund to pay a death benefit pension to her six-year-old daughter instead of herself.
b. Nicole can ask the superannuation fund to pay her a death benefit pension. She will also receive the anti-detriment payment under this option.
c. If Nicole takes the benefit as a lump sum and invests it outside of superannuation, she will pay tax on the earnings at her marginal tax rate.
d. Nicole can take the death benefit as a lump sum and invest it in her six-year-old daughter's name, with the earnings being taxed at adult tax rates.

3. Which of the following is not an advantage of a testamentary trust?

a. Income distributions are taxed at adult rates in the hands of minors, with the full benefit of the Low Income Tax offset.
b. Possible asset protection from marriage/de facto relationship breakdown for the beneficiaries.
c. Asset protection from creditors for the beneficiaries.
d. Protection of the assets from the claims against the deceased estate.

4. Putting life insurance cover in place is also an ideal time for advisers to have a comprehensive estate planning discussion with their clients.

a. True.
b. False.

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To answer questions
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BRENDAN BOWEN
BT

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes

- Death benefit paid as a pension
- Death benefit paid as a lump sum
- The use of SMSF reserves

SMSFs and the liquidity problem

main decker one here
main decker two
main decker three

Direct property is a popular asset class for many self-managed superannuation funds (SMSFs). The ability to hold bricks and mortar is often the reason an SMSF is established, and where this is true, a single property will commonly be the fund's main asset.

SMSF trustees who own direct property need to carefully consider not only their requirements under superannuation law, but also what happens to the property upon the sudden death or disablement of a member.

Under superannuation law, SMSFs are required to have an investment strategy, and that strategy must address liquidity and the ability of the fund to discharge its liabilities. Where an SMSF holds a large indivisible and illiquid asset, such as property, it may not have the liquidity necessary to pay out a lump sum death or disability benefit, if suddenly required. In these circumstances, a fund may have no option but to sell the property.

Liquidity problems can be further exacerbated when a fund has borrowed money to purchase the property, and upon the death or disablement of a member, it is no longer receiving the member contributions required to support the loan repayments.

Various strategies can be used to mitigate the risk of a forced sale. Below we discuss some of the options available.

Where a death benefit can be paid as a pension

Before considering a liquidity strategy, the first thing to establish is whether the death or disability benefit can be paid as a pension. Where a beneficiary is permitted to commence a death benefit pension from the SMSF (for example, a spouse, child under 18, or certain other categories of dependants), the trustees will not normally face an immediate liquidity issue. This is because a lump sum payment is not a compulsory requirement in these circumstances.

Case study 1
John and Mary are married and are both 45-years-old. They are members of an SMSF, which has the following assets:

Business premises - $390,000
Cash - $10,000
Total net assets - $400,000

There are no borrowings in the fund and John and Mary's benefit entitlements are split evenly, at $200,000 each.

Should either of them die, the other would like to retain the property in the SMSF - they view it as a long-term investment.

The SMSF only holds $10,000 in cash, so if John passed away, the SMSF would have insufficient cash to pay his death benefit as a lump sum. However, because Mary is John's spouse, she has the option of taking John's death benefit as a pension, as permitted by SIS Regulation 6.21(2A).

If Mary elected to take the death benefit as a pension, the SMSF will not have an immediate liquidity issue, but it will need enough cash flow to meet the required minimum pension payment of $8,000 per annum, being 4 per cent of John's death benefit.

If Mary does not need these pension payments long-term, she has the opportunity to commute the death benefit pension back to accumulation phase after the later of six months from death and three months from grant of probate - this is a prescribed period beyond which the commutation is no longer considered a death benefit.

While the above scenario is relatively simple, things can get a little more complicated when an SMSF has borrowed money to purchase the property.

Case study 2
Michael and Sally are married and have an SMSF with net assets of $200,000, equally split. Their fund also receives employer contributions of $5,000 per annum each.

Through their SMSF they have purchased a $500,000 investment property, borrowing $300,000 via a Limited Recourse Borrowing Arrangement (LRBA).

SMSF inflows include rental income of $17,500 per annum, in addition to the employer contributions totalling $10,000. Outgoings include interest of $20,000 per annum and net tax of $1,125.

The net cash flow position of the SMSF is therefore $6,375.

If Sally died, the SMSF would no longer be receiving her employer contributions, and its net cash flow would reduce to $2,125 – a common problem in LRBA scenarios, where the loan remains outstanding. Given such a small positive cash flow position, Michael would find it difficult to commence a death benefit pension and meet the required pension payments. Unless he could increase his contributions, he would need to either sell the property, or commute the pension back to accumulation phase (after the prescribed period).

To avoid this predicament, they could each establish life policies through the SMSF, to the value of the debt ($300,000). Michael's policy would be paid from his member account, and Sally's from hers.

If Sally died, the SMSF would receive $300,000 in cash proceeds, allowing it to pay off the loan.

Meanwhile, her death benefit would be increased by the insurance proceeds to $400,000.

With interest no longer payable on the loan, the fund's cash flow would improve by $20,000. This would allow Michael to receive a death benefit pension of $16,000 per annum (being 4 per cent of $400,000) and retain the property within the SMSF.

The trustees would need to ensure that the fund's investment strategy and trust deed accommodate the arrangement.

Where a death benefit must be paid as a lump sum

The scenario above would be entirely different where the surviving member cannot receive the death benefit as a pension, or where a lump sum is the preferred option. This would commonly occur where the SMSF members are unrelated business partners or siblings, or where a spouse beneficiary had a lump sum requirement on death.

In these circumstances, structuring insurance in the way that Michael and Sally have (that is, paying from their respective member accounts within the SMSF) simply increases the size of the deceased person's death benefit. When the death benefit is increased, the trustee has to pay an even greater amount to the beneficiary as a lump sum, and the SMSF ends up with the same liquidity problem.

Unless the insurance policy is structured differently where a lump sum is required, the trustees could be forced to sell the property.

Using reserves

As an alternative to the above traditional method of structuring insurance, the trustee may be able to employ the use of SMSF reserves.

The reserve strategy involves insuring each of the members in the fund, just as above, but structuring the policies in a way which allows the trustee to allocate the proceeds to the SMSF reserve. In this way, the proceeds from any insurance claim will not increase the deceased member's death benefit, but rather will be retained in the SMSF to provide liquidity. The cash received from the policy can then be used to extinguish the LRBA debt and pay out a lump sum death benefit.

In this arrangement, the premiums should be treated as a general fund expense and the trustees would, via discretion in the deed, allocate the proceeds to the reserve.

Case study 3

Brett and Ben are co-directors in a business and the only two members of their SMSF. Their member account balances are $100,000 each.

They have purchased a commercial property through their SMSF, borrowing $300,000 via an LRBA.

The property is leased to their business and is valued at $500,000. The fund has no cash.

If Ben died, and was not survived by a beneficiary (such as a spouse) who was both willing to join the fund and able to receive a death benefit pension, the fund would need to pay out a lump sum death benefit of $100,000. If Brett could not contribute $100,000 to provide this liquidity, the property would either need to be sold or a portion of it transferred out of the SMSF.

To mitigate this risk, the trustees could establish policies over Brett and Ben for $400,000 each, and treat the premiums as a general fund expense. On Ben's death, the trustees would allocate the proceeds to a reserve, meaning Ben's death benefit would remain at $100,000. This would allow the fund to extinguish the $300,000 loan and pay a lump sum death benefit of $100,000.

Brett would be able to retain the property in the SMSF, unencumbered by debt. However, the SMSF would now hold $400,000 in its reserve.

While this could be allocated to Brett's member account over time, any allocation for a financial year equal to or greater than 5 per cent of his interest (at the time of the allocation) will be counted towards his concessional contributions cap. Depending on Brett's other concessional contributions, such

Continues on page 34

Continued from page 33

as Superannuation Guarantee payments, this could restrict the trustee from being able to allocate the insurance proceeds to Brett's member account in a timely manner. This problem will be magnified if the proposed budget measure reducing the concessional cap to $25,000 becomes law.

Alternative strategies

The appropriate liquidity strategy for any particular SMSF will depend on the specific circumstances of that fund and its members. If the trustee does not wish to use reserves, there are a number of alternative strategies available. Importantly, however, the most common strategy – cross insurance, is no longer permitted.

Cross insurance (prohibited from 1 July 2014)

Prior to 1 July 2014, a common solution for SMSFs facing liquidity problems was to cross insure. This involved each of the SMSF members holding, within the fund, insurance policies over the other members. For example, in a two member fund, the policy over Member A's life would be paid from Member B's account and vice versa. In this way, if Member A died, the proceeds would be credited to Member B's account, providing the fund with the required liquidity, whilst not increasing Member A's death benefit.

From 1 July 2014, the Stronger Super reforms requiring alignment between insurance policies and SIS conditions of release have seen the ATO prohibit cross insurance strategies within an SMSF.

The ATO further clarified this view with a recent Interpretive Decision[1].

Insuring outside the SMSF

As an alternative to using reserves, the trustees could establish insurance outside the SMSF. For example, Brett and Ben (from case study 3) could both personally own term life policies of $400,000 over each other. If Ben died, Brett would personally receive $400,000 in claim proceeds tax-free (noting that capital gains tax would apply on any TPD proceeds in this scenario). Brett could then contribute these proceeds into the SMSF as a personal contribution, increasing the size of his member account.

Importantly, this contribution would give the SMSF an additional $400,000 in cash, with which it could extinguish the $300,000 loan and pay a lump sum death benefit of $100,000. Brett would have an increased member balance and would be able to retain the property within the SMSF. He would also not have to deal with any amount 'trapped' within an SMSF reserve.

The limitation of this strategy is that is does not work well for much larger amounts, where the contribution could exceed Brett's non-concessional cap. This problem will be more significant in a two member SMSF, as the required contribution in a three or four member SMSF can be shared by multiple surviving members.

This alternative will be further limited if the recently announced budget measure of a $500,000 lifetime non-concessional cap becomes law. This cap is intended to capture all non-concessional contributions made from 1 July 2007.

Unit trust arrangements

For members looking to acquire direct property using the resources of their SMSF, it is worthwhile considering the suitability of alternatives to direct SMSF ownership, such as ownership through a unit trust.

Under a unit trust arrangement, the trust itself owns the property, and the SMSF owns units in the trust. In this way, the assets of the SMSF comprise easily divisible trust units, as opposed to direct property, and this gives the trustees greater flexibility on the death of a member.

The trust could be geared or non-geared, however, different superannuation rules apply in each scenario, and great care needs to be taken that the in-house asset rules are not breached. The strategy is therefore not without its limitations.

An in-house asset is defined in Section 71(1) of the SIS Act and includes an investment in a related trust, unless the trust meets certain strict criteria. The concept of a related trust is very broad and would include an arrangement where an SMSF (along with any members, relatives of members and entities sufficiently influenced or controlled by such persons) owned more than 50 per cent of the trust unit holding.

Below we consider two possibilities.

The unit trust borrows to purchase the property

Where the trustee of the unit trust borrows money to purchase the property, the trust becomes a geared unit trust. While it is possible for an SMSF to own units in a geared unit trust, care needs to be taken that the trust is not 'related' to the SMSF – if the trust is related, the units owned by the SMSF will become an 'in-house asset' of the SMSF.

For example, assume Brett and Ben (who are not relatives) instead each have separate SMSFs and are co-directors in a business with two other unrelated directors. Assume also that each of the directors wanted to own 25 per cent of the units in the unit trust.

If Ben decides to purchase his 25 per cent unit holding through his SMSF, that investment would not (prima facie) be considered to be an investment in a related

trust – this is because his SMSF, together with all of its related parties, only control 25 per cent of the units.

In this scenario, the trust could borrow money to purchase the property without Ben's SMSF contravening the in-house asset rules. Further, an insurance policy could be owned by the trust for debt protection.

The trust does not borrow to purchase the property

An exception to the in-house asset rules exists where the trust meets the definition of a non-geared unit trust, under SIS Regulation 13.22B or 13.22C. Broadly, these regulations require (among other criteria) that the trust does not have any borrowings or charges over its assets, and does not hold any interests in other entities – for example, it does not own shares.

Where all these criteria are met, Ben's SMSF could own any percentage of the units in the trust, which in turn would own the property. If his SMSF could not afford all the units upfront, Ben could share the ownership with his SMSF. The SIS Regulations provide a further exemption for non-geared trusts, which would allow Ben's SMSF to subsequently acquire his personally owned units over time, as affordability permitted.

Ben could still borrow money to fund the purchase, however, any borrowing would need to be secured against a separate asset – there could be no encumbrance on the SMSF or the trust.

For certain clients, geared or non-geared trust arrangements may present an attractive alternative to a standard LRBA. This is especially true where SMSF liquidity problems cannot be resolved in an acceptable way, or where the limitations of an LRBA, such as restrictions on improving a property, are not commercially viable.

Summary

Considering insurance is a critical, and now legally required, part of running an SMSF. For advisers and trustees, there are a number of traps for the unwary. Understanding the legislative requirements and ATO views on certain insurance strategies, as well as the alternatives to traditional LRBA arrangements, will allow advisers to help their clients safely navigate this often complex area and give them the protection they need.

Brendan Bowen, Product Technical Manager, Life Insurance, BT.

Footnote

1. ATO Interpretative Decision - ATO ID 2015/10 – Superannuation - Self managed super fund: Life insurance - Buy sell agreement – financial assistance - sole purpose.

QUESTIONS

1. In this year's Federal Budget, the Government announced its intention to introduce a $500,000 lifetime cap on non-concessional contributions taking into account all non-concessional contributions from which date?

a. 13 May 2007.
b. 1 July 2007.
c. 3 May 2016.
d. 1 July 2016.

2. Amounts allocated from an SMSF reserve will count against a member's concessional contributions cap in certain circumstances, including where allocations are equal to or in excess of a percentage of the value of that persons member balance. What is that percentage?

a. 2 per cent.
b. 5 per cent.
c. 10 per cent.
d. 50 per cent.

3. If two unrelated members insured each other outside of the SMSF (i.e. self owned), which of the following types of cover would be subject to capital gains tax on receipt of proceeds?

a. Total and Permanent Disablement.
b. Term Life.
c. Income Protection.
d. Key Person revenue protection.

4. From what date was cross insurance prohibited within an SMSF?

a. 1 July 2007.
b. 7 August 2012.
c. 7 August 2013.
d. 1 July 2014.

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

Quality key to success

The **Sydney Chapter** was fortunate to have FPA Chairman Neil Kendall CFP® present a practice management Masterclass session on 10 June.

In a highly entertaining presentation, Kendall, who is also the managing director of Tupicoffs, an award winning financial planning practice based in Brisbane, shared his client engagement and practice management tips, as well as the processes and tools he has used over the years that have helped grow and develop his own practice.

During his informative presentation, Kendall covered a range of topics, including his value proposition to clients and how that has changed over the years, his succession planning process, and importantly, how Tupicoffs continuously manages to attract and retain quality staff members.

Kendall's key client engagement tips included:

- Know your value proposition and deliver on it;
- Win clients over during and after their initial meeting;
- Use good diagrams and images to help simplify plans for clients;
- Have a system in place for referrals but never beg for them; and
- Take the time to understand your wealthy clients, who typically have much different objectives and goals than your low/mid-net-worth clients.

Over 60 members and their guests attended the early morning start.

And his three key practice management tips were:

- Seek and employ the best staff you can.
- Record all client meetings; and
- Always do the big things first, like client appointments, before getting side-tracked with the daily routine of running a business.

"And remember, financial planning is not all about fees; it's all about client service," Kendall said. "Too many planners concentrate on the fees, when they should be concentrating instead on providing excellent ongoing client advice. You need to provide great ongoing advice to your clients if you expect to be paid for it."

Andrew Donachie CFP®, with FPA Chair Neil Kendall CFP®, and Ross Barnwell.

William Tomac, Nadia Cassidy AFP® and Alison Macfarlane.

The FPA congratulates the following members

who have been admitted as CERTIFIED FINANCIAL PLANNER® practitioners.

VIC

Christopher Risteski CFP®
Column Financial Solutions

Brigitte Forbes CFP®
Macquarie Equities Limited

Michael Young CFP®
Moneywise Global Pty Ltd

William Lewis CFP®
Equipsuper Financial Planning Pty Ltd

NSW

David Minehan CFP®
Novatax Financial Planners

Kaori Brown CFP®
Macquarie Equities Limited

Centrelink update

The **Geelong Chapter** provided a Centrelink update Seminar on 6 June.

During this event, attendees heard from Centrelink guest speakers, Janifer Dooley and Phil Joyce, who spoke about the recent changes to Centrelink assessment rules, which may force planners to rethink their strategies in order to meet client needs.

Members also had the opportunity to ask the speakers any other Centrelink related questions.

Defensive allocation

The **Bendigo Chapter** recently ran a seminar on fixed income, presented by Simon Michell.

As part of his presentation, Michell presented an overview on the current fixed income landscape in Australia, as well as providing an update on interest rate markets. He also used the seminar to explain how including bonds in an investment portfolio provides a true defensive asset allocation.

THANK YOU

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- Affinia
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- Placer Property
- Magellan Asset Management
- Macquarie
- MLC
- NAB
- UBS Asset Management
- Vanguard
- Zurich

UPCOMING CHAPTER EVENTS

11 JULY
Geelong
2016 FPA National Roadshow

13 JULY
Melbourne
2016 FPA National Roadshow

14 JULY
Brisbane
2016 FPA National Roadshow

20 JULY
Sydney
2016 FPA National Roadshow

21 JULY
Melbourne
Women in Financial Planning Lunch

22 JULY
Wollongong:
2016 FPA National Roadshow

24 OCTOBER
South Australia
Future2 Golf Day

23-25 NOVEMBER
National
2016 FPA Professionals Congress
Perth Convention and Exhibition Centre
www.fpacongress.com.au

We look forward to seeing our members at the next local chapter event.
For upcoming events in your local Chapter, please go to www.fpa.com.au/events

Tax time tips for families

If your client receives Family Tax Benefit (FTB) or Child Care Benefit (CCB) during 2015-16 from the Department of Human Services (DHS), they may soon need to lodge a tax return to trigger their annual payment reconciliation.

This is an automated process (also known as 'balancing') where the DHS compares the amount of FTB and/or CCB paid to a person based on their estimated income, against what they are actually entitled to, based on their income assessment provided by the Australian Taxation Office (ATO).

This process determines what top-ups or supplements they may be eligible for, or whether they need to repay any debts. Child Care Rebate payments will be balanced at the same time as a person's CCB.

If this process applies to your client, it's important to remind them they do not need to contact the Department to check the progress of their balancing.

The Department receives adjusted taxable income assessments directly from the ATO and this automatically triggers the balancing process, so there's no need to call or contact the Department in any other way.

You can advise your client it generally takes up to 28 days from the time a person receives their Notice of Assessment from the ATO for the DHS to receive their income information and balance their payments.

Once their payments have been balanced, the Department will let them know the outcome by sending a letter or uploading this information to their Centrelink online account.

If part of a couple, FTB and CCB clients should also remember their partner may also need to lodge their tax return, or advise the DHS that they aren't required to lodge one, before the balancing process can begin. This is easily done through either their Centrelink online account via myGov or through the Express Plus mobile app.

In this case, it can take up to 28 days from when their partner receives their Notice of Assessment from the ATO for the Department to balance their payments.

Any payment recipients unsure about their tax time requirements for FTB or CCB purposes should visit www.humanservices.gov.au/taxtime for more information.

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