PP 243096/00011

OFFICIAL PUBLICATION
OF THE FINANCIAL PLANNING
ASSOCIATION OF AUSTRALIA

Financial Planning

Volume 28 Issue 10

November 2016
$15.00

The connection revolution

Steve Sammartino and technology capability

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Contents

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Financial Planning Magazine is the official publication of the Financial Planning Association of Australia Limited (ABN 62 054 174 453)
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Average Net Distribution
Period ending Mar '16
11,265

Photography/Images:
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A gathering of great minds

When great minds get together, anything can happen.
When we remain open to the future, the possibilities are endless.

It is hard to believe that we have already reached the final edition of *Financial Planning* magazine for 2016. The past months have been challenging, yet satisfying to see many years of hard work by a large number of people come to fruition.

Over the coming months, our resolve and resilience as a profession will continue to be tested as we face ongoing change. But by working together, I know we are well positioned to grow as a profession and adapt to the future needs and wants of clients, as they also continue to evolve.

Embracing technology

It is impossible to deny that the biggest catalyst for evolving client needs and wants is technology. We cannot ignore the change that new technologies will bring, in terms of omni-channel advice delivery, the introduction of new cost efficiencies and the ability to reach new audiences.

This year we are delighted to welcome Steve Sammartino as one of our Congress workshop speakers. Steve is an expert on the digital revolution. He has a best-selling book and many start up successes to his name. Steve will look at the opportunity technology presents for those who are brave enough to change the way we think and work. You can read an interview with him on page 20.

Supporting talent

To grow a sustainable profession, we need to attract new talent into our community and celebrate the diverse talent we already have. We were excited to broaden the FPA Award categories this year with a new FPA Paraplanner of the Year Award and we will be announcing the first-ever winner in Perth, along with the rest of the category winners.

We are also excited to host our first ever paraplanner workshop at Congress, designed to facilitate the sharing of best practice, and the technical knowledge and skills required to be a successful paraplanner. The role of a paraplanner is an important one, and one that sometimes goes unrecognised.

Celebrating diversity

You've hopefully heard that writer and broadcaster Catherine McGregor AM will be the speaker at our Women in Financial Planning Breakfast at Congress on Friday 25 November.

Catherine was named the 2016 Queensland Australian of the Year in honour of her service as an advocate for the transgender community and her wider contribution to the understanding of gender variance and diversity.

Catherine's story of courage, resilience and being true to yourself is very powerful. She will share her personal story of facing challenge, which I'm sure, will capture our attention. The session is open to everyone and I encourage you to attend if you are joining us in Perth.

Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

By working together, I know we are well positioned to grow as a profession and adapt to the future needs and wants of clients, as they also continue to evolve.

ASIC updates MDA regulation RG179

The Institute of Managed Account Professionals (IMAP) has welcomed ASIC's revision of the Managed Discretionary Account (MDA) Class Order – RG179 – saying that the updated version of RG179 was "easy to read and a clear and pragmatic response that makes it more likely that advisers will take up MDAs because of the flexibility they allow in the advice process".

Speaking to *Financial Planning*, IMAP chairman Toby Potter said ASIC has recognised that managed accounts are operated in many ways and the new Regulatory Guide recognises this in allowing multiple modes of operating.

"The FUM in managed accounts has expanded enormously to over $31 billion since 2004 when the Class Order was first issued, and the number of providers and the ways in which managed accounts are offered has developed tremendously," Potter said. "ASIC signalled with the release of a consultation paper in 2013 that it recognised that market practise had moved in advance of the old regulations. This update brings a welcome alignment of regulation and industry practise."

Amongst its determination, ASIC has now brought 'limited MDAs' into the regulatory regime. Potter has also welcomed the regulator not implementing a net tangible asset requirement, although ASIC will be reviewing this over the next two years while it determines the impact of the changes in this update.

The major change contained within the updated regulations is terminating limited MDAs.

"This provides a two-year window for advisers who are currently using platforms to determine their best option," Potter said. "ASIC indicated that it will give some consideration to the experience gained in operating a limited MDA service for those who apply to be fully fledged MDA providers. ASIC has provided these advisers with several options, including introducing a new type of MDA – MDA on a Regulated Platform – with specific reliefs.

"The approach to adviser's Best Interest obligations, which ASIC developed in the FoFA legislation, comes out very clearly in this new document. Both Best Interest obligations and the treatment of conflicts of interest are clearly spelled out."

However, RG179 also includes a number of elements that existing MDA operators will find uncomfortable. This includes a large number of changes to process and obligations which will be cumulatively significant, with the transition period limited to one year. This includes RG179 making it mandatory for MDA providers to confirm the suitability of their MDA service for a client with an external adviser.

In addition, ASIC has tightened the requirements on MDA providers in circumstances where they include investments that may expose clients to losses beyond their initial investment. This will require MDA providers to implement stronger disclosure and review processes.

Breakfast with Catherine McGregor

CATHERINE MCGREGOR AM

Queensland Australian of the Year, writer and broadcaster, Catherine McGregor AM will be the speaker at this month's Women in Financial Planning Breakfast at the FPA Professionals Congress in Perth.

McGregor was named Queensland Australian of the Year for her service as an advocate for the transgender community. She also holds the Order of Australia for her service to the Australian Army, with a military career spanning nearly four decades.

"In line with this year's Congress theme, 'Future Ready', Catherine will share her life's journey of survival in the face of personal challenges," said FPA chief executive officer, Dante De Gori.

"Catherine's bold story of courage, resilience and being true to yourself is very powerful. She's also made an outstanding contribution to the understanding of gender diversity and variation, and will provide breakfast attendees with an inspirational perspective on these issues and more."

The Women in Financial Planning Breakfast will take place from 7:30am on Friday 25 November. The breakfast is open to all attendees.

For more information on the FPA Professionals Congress, and to register for the Women in Financial Planning Breakfast, go to fpacongress.com.au

Elev8ing young professionals

Elev8 is a great concept that goes to the heart of learning and sharing. Speakers provide quick and engaging 'grassroots' presentations that go directly to the heart of great ideas.

The **Melbourne Chapter** hosted its Young Professionals Elev8 event on 1 September.

Attendees heard from:

- Frank Walsh (Recruitment Consultant, Randstad), who spoke on the various career pathways in the financial planning industry;
- Anna Cairo (Director of Anna Cairo Consulting), who presented on social media; and
- Jeff Yacoub (Director and Principal Financial Adviser of Argent Street), who spoke about his journey in the financial planning industry.

After the event guests had an opportunity to network with industry peers.

Teeing off for charity

In the month of September, both the **Sydney** and **Newcastle Chapters** held their respective Future2 Golf Day.

The event provided an opportunity for members to network with industry peers, as well as help give back to the community through their donations towards the Future2 Foundation.

Both Chapters thank everyone who donated on the day and for the support of the event partners.

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Finals fever kicks goals at annual footy lunch

Another strong turnout for the AFL Grand Final lunch.

The **Melbourne Chapter** hosted its annual AFL Grand Final lunch, in support of the Future2 Foundation, on 26 September at Etihad Stadium.

The event was hugely successful, with over 650 members and their guests attending, helping to raise close to $10,000 for Future2 – the foundation that supports disadvantaged youths of Australia.

Guests were kept entertained throughout the event, starting with a stand-up comedy act from Lawrence Mooney.

This was followed by the All Star AFL panel discussion session, which included Tim Watson, Billy Brownless, Daisy Pearce, Brian Taylor and Luke Hodge.

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

NSW

Paul Trosti CFP®
Godfrey Pembroke

Chinthaka Muthukuda CFP®
Suncorp Advice

Andre Mudigdo CFP®
BT Financial Group

SA

Oliver Temme CFP®
Wotherspoon Wealth

Charity begins at home

IRESS is a committed supporter of Future2. This month, IRESS CEO, Andrew Walsh will ride in the Future2 Wheel Classic. He spoke to *Financial Planning* about the importance of corporate philanthropy and charitable giving.

FP: Why has IRESS been such an active supporter of the Future2 Foundation?

AW: I was asked personally by Matthew Rowe, then Chair of the FPA, to support the Future2 Gala Dinner initiative in support of Future2. We have done this over the last few years.

This year, IRESS will continue its involvement with Future2 by sponsoring the Wheel Classic. We have enjoyed being part of contributing to this great cause and getting an insight into Future2's activities first hand.

FP: How important is philanthropy and charitable giving to IRESS?

AW: It's fundamental that we make a difference for our clients and in our communities. And this is important for us corporately and for our people. It's about how we use our skills, our time and money to make a positive difference in the local community.

We actively endeavour to embed this culture of philanthropy and charitable giving, in the culture of IRESS.

Indeed, IRESS' culture, as expressed through our corporate social responsibility teams, promotes philanthropy and taking responsibility for disadvantaged stakeholders in our communities, both local and global. We don't promote this obligation for staff. We have been very fortunate that it's a grass-roots phenomenon at IRESS internationally. We are very proud of this.

FP: What motivated you to ride in this year's Future2 Wheel Classic?

AW: Since learning about the event some years ago, I have wanted to participate. It is a great event that combines my love of cycling and riding with my professional colleagues for an excellent cause that will make a difference to the lives of disadvantaged young Australians. This year I have made myself available to cycle the first stage of the event.

IRESS is also sponsoring this event, which continues our association with Future2.

The Esther Cafe is providing practical experience and skills for young women in need.

FP: What do you hope to achieve by participating in the Wheel Classic?

AW: I want my participation in this year's Wheel Classic to make a difference. I hope to do this by helping to raise money, while also raising the profile of the Future2 Foundation and the Wheel Classic through my professional and personal network.

WHEEL CLASSIC AND THE ESTHER CAFE

On November 17, the Future2 Wheel Classic will officially kick-off its seven day ride starting from the Esther Cafe in Como, just south of Perth CBD.

The Esther Cafe is an initiative of 2015 Future2 grant recipient, The Esther Foundation.

The Esther Foundation's Positive Pathway Program received a $30,000 Future2 grant spread over three years. The grant will assist young women who are coming out of crisis, having suffered a range of problems including substance abuse, sexual and emotional abuse, domestic violence, mental health problems, family breakdown, bullying, depression and eating disorders.

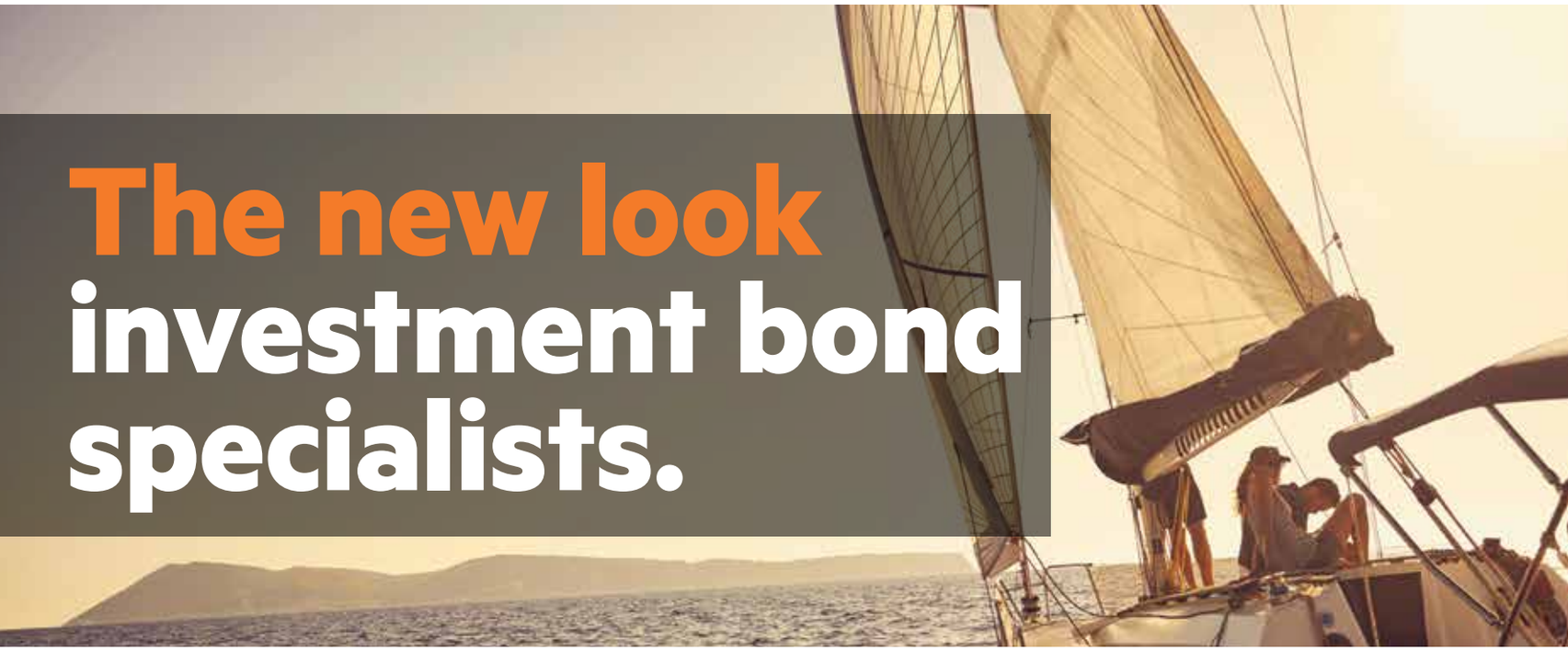
Through mentoring and practical experience in the Esther Cafe, these women can develop the skills they need to find work and establish independent lives. The Future2 grant will allow more young women to learn barista, table service, retail, cooking, baking and customer service skills.

The Esther Foundation is the largest young women's residential recovery program of its kind in Australia.

With 13 premises housing more than 45 young mothers, young women and children, it provides a safe, structured and supportive environment to help overcome life-controlling struggles and issues. Its social enterprise schemes, such as the cafe, have been developed organically without any external funding.

Randall Stout CFP®, a Future2 ambassador, supported The Esther Foundation's grant application. He is also actively involved with the not-for-profit organisation by providing advice and support to the Esther Foundation across a number of areas, including financial counselling for the women in the Positive Pathways Program and building the sustainability of the café's management.

Australian Unity



The new look investment bond specialists.

In October 2016, Lifeplan Funds Management re-branded to Australian Unity.

Australian Unity offers tax effective investment solutions that can be used for wealth creation, estate planning or as an alternative to complement superannuation.

Although the business name has changed, the products and services remain the same.

- Lifeplan NextGen Investments, now with 42 investment options, will now be referred to as the **Lifeplan Investment Bond**
- Lifeplan Education Investment Fund, a qualified scholarship plan, will now be referred to as the **Lifeplan Education Bond**
- **FuneralPlan Bond**, a capital guaranteed fund, offers social security benefits.

With the recent launch of the investor portal, and the inclusion of additional investment options to the Lifeplan Investment Bond, we have lots more instore for the year ahead.

Find out more about our tax effective investment bonds, and register today for our adviser portal for specialist adviser resources and applications.

Call 1300 133 285
or visit australianunity.com.au/wealth

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Are you Future Ready?

Q: The theme of this year's FPA Professionals Congress is 'Future Ready'. What does 'Future Ready' mean to you, your practice and your clients?

Scott Brouwer CFP®

Financial Planner, Prosperum Wealth
Licensee: Banyan Securities

Predicting the future is very difficult but not preparing for it is foolhardy.

As a business, we need to be ready for the future, however, I for one am not confident enough to say we are 'future ready'.

Change, while not always positive, will present opportunities for those who are prepared to embrace and work with it.

Advances in technology and its growing acceptance will hopefully make our practice more efficient and better able to communicate and inform our clients.

To be 'future ready' will require embracing this technology.

Legislative change will continually prove challenging for clients and practices alike.

The outcome from legislative change affecting clients is the increased demand for advice, therefore that's good for advice businesses.

The outcome from legislative changes on practices is often the need for increased administration and complexity. To be 'future ready' requires anticipation of legislative direction and having systems capable of adapting to the changing landscape.

For clients, 'future ready' means being able to achieve their lifestyle goals and objectives in a timely manner. It is our role to provide the guidance to help them prioritise, plan and implement the strategies to make this happen.

The FPA Professionals Congress theme of 'Future Ready' is well timed, with change occurring at a rapid pace for all stakeholders, not just in our profession, but in every area of society.

Daryl La'Brooy CFP®

Financial Adviser, Hillross Financial Services
Licensee: Hillross Financial Services

Life, unfortunately, isn't predictable; the current status quo doesn't last forever. Change is ever present and the unexpected does happen. So, 'future ready' means being able to handle change, including the unexpected, and adapt to this change. To paraphrase Charles Darwin: "It's not the fittest or strongest that survive, but those who are able to adapt best."

So, it is for all of us, our businesses and our clients. Many argue the pace of change is more rapid now than it's ever been. If so, the need to be 'future ready' is even more paramount.

From a general perspective, 'future ready' means becoming a lifelong learner. There are some basic truths that will never change for me, such as treating clients with respect, listening to what they say and want, always checking in to see whether they are happy with what we do for them, and taking the time to inform and educate them.

They are the principal reasons why we remain in business. So, I have to be the best adviser I can be for them, and my team needs to support me in that task.

'Future ready' from a business perspective is ensuring we are compliant, adaptable, well trained, resourced and on the lookout for threats and opportunities. It means ensuring you are with a good licensee, and you have great business partners and suppliers. It also means investing in the business and remaining at the forefront.

From a client viewpoint, it's ensuring clients can meet expected events, not taking unnecessary risks, explaining the consequences of certain decisions and when things get tough, being there for them and getting them through these periods, as we did with the GFC.

As we are now more than seven years on from the last major share market downturn, we are nearer to the next one.

How 'future ready' are your client portfolios, given this possibility?

Anne Graham CFP®

Chief Executive Officer/Financial Planner, Sigma Wealth Management
Licensee: Securitor Financial Group

According to Socrates, "The secret of change is to focus all of your energy, not on fighting the old, but on building the new", and I think we are now ready to heed this advice.

The theme of this year's Congress – Future Ready – is a firm statement. It's not saying "maybe we can start thinking and worrying about the future, and have a bit of a whinge". It's not saying "the future is coming and let's be afraid of changing things from the past". It's saying – we can make our own future by embracing change, not resisting it; by taking up challenges, not fighting them; and by being open to opportunities, not closing them down.

When thinking of our business, 'future ready' means being not only open to opportunities but seeking them out. Investigating new and better ways of doing things by using existing technology and being open to new innovation. It means being challenged and adaptive and positive about what lies ahead. The opposite to that is being fearful and that's not good for our business, our clients or us.

When thinking of our clients, 'future ready' means embracing the role of coach and guiding them through the next 5-30 years and all that entails. Think of the changes they'll experience in their lives – marriage/divorce/children/education costs/career changes/redundancy/first home/holiday home/travel/retirement/grandchildren/illness/death. I haven't even listed changes to income/super/tax/daily living/house prices.

One of the constant influencers in their lives will be us, their trusted professional adviser, and our job is to make sure they are financially and mentally 'ready for their future'.

When I think of 'future ready', for me personally, a few ideas come to mind.

As a leader, I need to be open to new concepts and empower my team to be innovative and adaptive. It's comfortable to do nothing but that doesn't inspire growth and worse still, it stifles opportunity.

As an adviser, I need to continue to be abreast of issues that will impact my clients' strategies and plans for the future but equally important, I need to be there to explain what it all means to them and guide them through the maze.

We need to mould the future and influence the changes and opportunities that are coming our way; not be a passenger but rather, the driver. For some, that means transitioning their business model or taking up further education, while for others, it means being more involved in their community and profession. For all of us, it entails getting out of our comfort zone and that's exciting!

As John Sculley said: "The best way to be ready for the future is to invent it."

Continues on page 14

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

Simon Duigan AFP®

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

For any business we need to always consider what are the threats and opportunities that the future holds. Our practice embraces the concept of continual improvement and are always looking at how we can improve the client value proposition.

A key part of the continual improvement process is utilising technology to improve our productivity.

As an example, we spend a day a month where we work solely on the business, not in the business. Each staff member has a project that they take responsibility for to provide efficiencies and better client outcomes.

As a business, we are conscious that the traditional mediums for engaging with clients are changing and we have embraced these where appropriate. Different forums now apply for different client groupings. For example, with Millennials, the preferred mediums are Facebook, You Tube, Snapchat and Instagram. All businesses, no matter what industry you are involved in, need to focus efforts and energies where your clients are.

Whilst recognising the changes and advances in technology, it is important to note that emails, phone calls and face-to-face meetings are still important tools in our client engagement process.

The emotional and personal connection we have with our clients is the key, and technological advances and disruption, such as 'robo-advice', will complement this relationship, not replace it.

For us, being 'future ready' and integrating changing technology into our processes, will drive efficiencies and allow us to focus more on providing great advice to our clients.

Michelle Tate-Lovery CFP®

Director and Principal Financial Adviser, Unified Financial Services
Licensee: Unified Financial Services

'Future ready' is about undertaking a journey.

As a financial planner it is about being a step ahead of (imposed) change, being forward thinking and essentially, reinventing yourself before you need to. It's also about understanding at a deeper level what clients need and to remain relevant.

In focusing on professionalism, best practice and enduring relationships with our clients who have achieved great outcomes, we will instil confidence in the broader community. This will result in more people seeking professional advice and having trust in the financial advice process.

In preparing for the demand in people seeking financial advice, our businesses will need to balance tailored personal financial advice with scalability through technology and specialisation.

'Future ready' is about being compelling, having a vision for yourself, your business and your clients that is so inspiring it is worth the hard work".

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.

Ticking off the milestones

Name: Kyle Brown CFP®

Educational Qualifications: CFP®, BCom, Adv DFP
Position: Director and Financial Adviser
Practice: Directions Wealth Management
Licensee: Financial Services Partners
FPA Professional Practice: No
CFP designation: 2016
Years as a financial planner: Nine years

Kyle Brown recently completed the CFP® Certification Program. He talks to Jayson Forrest about what being a CFP® professional means to him and what it means for the future of the profession.

As a planner working out of Australia's smallest capital city, Hobart-based Kyle Brown doesn't let the small-city syndrome get him down. On the contrary, he sees it as an asset.

Despite the last 10 years seeing the mainstay of the Tasmanian economy - the timber industry - significantly dwindling to less than a quarter of the size it once was, Tasmania is reinventing itself.

Its stunning landscape, reputation for healthy living and small town feel is a magnet for tourism and increasingly, a retirement destination for many mainlanders. And this, Kyle believes, is creating opportunities for planners working in the Apple Isle.

"On the advice front, Tasmania and more specifically, Hobart, is a true services economy with no real standout industry that defines our economic activity. Our largest employer is a mix between state and federal governments," Kyle says.

"Consequently, we have a vast spread of clientele with varying advice needs across the spectrum. This means that in Hobart, you must have a diverse service offering and be appropriately educated and experienced in multiple advice streams."

With such an eclectic clientele, and a burgeoning retirement population, Kyle believes there is a real need for Tassie planners to keep their skills at the forefront across multiple facets of advice.

CFP® professional

It was this very belief to be the best he could be that motivated Kyle to become a CFP® professional, which he also viewed as being part of the course of belonging to a profession, and adhering to the highest professional and ethical standards held by that profession.

"It has always been important to me that I work in a fashion that embodies all aspects of professionalism. My personal definition of professionalism goes beyond entry level qualifications," he says.

"I felt it was important to obtain the highest professional designation relevant to my field of work. And for me that was the CFP® Mark."

What also attracted Kyle to the CFP® Certification Program was the global recognition that the CFP® designation brings, reflecting the global standard of professionalism in financial planning.

"Committing to the CFP® Mark also aligns a planner to the FPA. The FPA stands for professional and ethical conduct. The FPA is committed to these important qualities and goes to length to promote professional behaviour aligned to these virtues.

"Simply put – I don't see how you could go wrong aligning yourself to a professional body with such high regard for professional behaviour and standards."

Studies

Kyle's approach to his CFP® Certification studies meant working within two key guidelines. Firstly, he took an organised approach and implemented a structured plan for each unit.

"For me, it was imperative to map out the workload that each unit entailed and cross referenced this with the time that I had to complete each submission. Surprisingly, I found having a plan and getting to tick off milestones as I went along, made the study less daunting."

Secondly, he allowed enough time to get through the volume of work required for each unit.

"By starting my studies early from week one of each semester, I found that time was on my side," he says. "It's not the sort of study that can be left to the last minute. My aim was to finish ahead of deadline. This allowed me the time to tackle anything unexpected that came up along the way, which often occurred."

Kyle admits that by working within personally constructed boundaries resulted in him achieving a consistently high quality level of work, which simply became a default by-product by the end of the program. It's something he is proud of.

Education

Considering his personal approach to studying, how does he view

structured and ongoing education for planners in the profession?

He believes it is crucial.

"No industry or profession will positively thrive without evolving and growing over time. Our profession must continue to evolve in order to unshackle some of the negative stigma associated with the indiscretions of a small minority from the past. I believe education is the key to evolution and growth," he says.

"Planners should have faith that by applying themselves to the learning process, positive evolution will occur which will be for the greater good."

Challenges

Kyle isn't alone when he sees a multitude of challenges facing the financial planning profession, including regulatory and legislative change, market volatility, costs, automated investing services and political instability.

But he concedes while the profession faces many challenges, planners should always be aware of the challenges their clients face.

"These are the challenges we are capable of assisting them with," Kyle says. "One noteworthy challenge for our clients is the impact that current economic conditions are having on their respective financial positions.

"Household budgets are under pressure and our clients are feeling it. Our clients are working harder and longer hours, yet income and wage growth is low. The cost of living is expensive and inflation is at record lows. The cost of housing is frightening. Investment returns are not what they used to be. Retirees face low cash rates on their savings and reducing Centrelink benefits are subject to increased scrutiny.

"Ultimately, it's these kinds of household budgetary pressures on our clients that impact the planning professional and the solutions we can help provide. These are the challenges of financial planning."

Advice

But despite these challenges, Kyle is a passionate advocate of the profession and actively encourages any planner considering becoming a CFP® professional to take the next step.

So, what advice does he have to offer?

"Firstly, have a plan and stick to it. You literally should write one down and tick it off as you go. And secondly, allow plenty of time to complete the CFP® Certification Program, as time is a resource that will evaporate quickly. So, start working through your plan and the course work from day one."

Kyle also believes it's important to have self-belief when studying and to practise positive thinking. And equally important is good mental health. This is something Kyle religiously observed, by allowing himself the time to unwind and relax from his studies.

"For me, good mental health means spending time with your family and reminding them how much you love them," Kyle says. "But it also means allowing some time for yourself. My outlet was cycling. Whilst I'm not as capable as fellow Tasmanian Richie Porte, who came fifth in this year's Tour De France, cycling sure did help clear my mind and aided in relaxation."

The art of political engagement

Gaining the attention of your local Member of Parliament on important policy matters might sound easier said than done. But, as Jayson Forrest discovers, some practical tips and tools developed by the FPA will help planners to better engage with their local politician.

Ben Marshan CFP®

Bert van Manen MP

At a time when the financial planning profession is under intense media and regulatory scrutiny, it can be hard to remain focused on what's important for financial planners and their clients - namely, creating a profession that is universally respected and trusted.

And that's where advocacy comes in.

By properly and respectfully engaging legislators, an individual or group, can actively influence decisions within the political and regulatory spheres.

As the FPA's Head of Policy and Government Relations, it falls on Ben Marshan CFP® to steer the FPA's, and the profession's, legislative agenda. But when it comes to advocacy, he believes this can be particularly powerful when the collective involvement of the profession is engaged with their local Member of Parliament (MP).

But why should financial planners be concerned about advocacy, particularly in relation to engaging with politicians? After all, isn't this the responsibility of professional bodies, like the FPA?

Marshan agrees but says that engaging with your local MP is an effective way of demonstrating that you care about the laws that govern both your profession and the financial affairs of your clients and all Australians.

He adds that MPs have the responsibility of representing the views of their electorate in Parliament and in party room discussions, so it's important that planners make those views known.

"Legislative policies are often developed based on a limited set of information," Marshan says. "Therefore, advocacy is important to make sure that politicians are aware of the full impacts of the proposals they are making, so they can develop informed positions that represent their electorate.

"So, as financial planners have their clients best interests at heart, it's important for them to make sure that any policy decisions proposed or legislated by Government are not only appropriate for the profession, but importantly, for consumers."

It's a view supported by the Federal Member for Forde, Bert van Manen MP.

van Manen is well placed to speak on advocacy, having been a financial planner for 12 years prior to being elected to Parliament in 2010.

"Most planners have been in the industry for a long time and they have valuable advice to give to us as Members of Parliament," he says.

"My political colleagues and the bureaucrats we get advice from don't have all the answers, and generally, we don't have the experience or exposure to the industry and its issues that planners have. That's why the input of planners is so important in helping Parliament formulate policy in financial services."

He believes that by engaging more closely with politicians, planners have a unique opportunity to speak directly to politicians and influence their decision-making about the issues they are seeing within the profession.

"It's also an excellent opportunity to explain to politicians the value of the service that planners provide to the wider community. In my opinion, the greatest service that planners provide is the strategic advice they provide to their clients," van Manen says. "And that's something more politicians need to be made aware of."

As politicians are ultimately responsible for bringing about changes in law, Marshan believes it's important that as a profession, planners play a more active role on their clients' behalf to ensure that politicians, the regulators and

other industry stakeholders are aware of the impacts that different policy measures can have on Australians.

Only by proactively engaging with politicians can planners help educate MPs on the ramifications of law, while helping them to better understand the impacts that different pieces of legislation can have on the financial wellbeing of Australians.

Engagement

According to Marshan, there are many ways that planners can engage with their local MP, such as writing a letter, phoning, emailing and following them on social media. But by far the most effective form of engagement with an MP is a face-to-face meeting.

It's a view supported by van Manen.

"Planners should consider contacting their local member for a catch-up over coffee. This is a great way to get to know your local MP and to explain the value proposition planners provide their clients around strategic advice," he says.

"Personally, I prefer to sit down and engage with people face-to-face. And if people have issues or concerns, instead of just talking about problems, I like it when they bring along possible solutions."

However, Marshan concedes that engaging with MPs does take time and effort - both for the planner and their local Member.

So, to assist practitioners, the FPA has developed the Advocacy Kit, which comprises practical tips and tools on the most effective ways for a planner to engage with their local MP. The Advocacy Kit also includes information about current issues that planners may want to bring to their MP's attention.

To assist planners to better engage with their local MP, the Advocacy Kit provides informative tips on the following:

- Important tips to get you started;
- Finding and addressing your MP;
- Tips for writing a letter and email to your MP;
- Making the most of your face-to-face meeting;
- Tips for telephone calls with your MP;
- Engaging with your MP via social media; and
- What to give your MP.

"The Advocacy Kit provides what we believe are the best steps for planners to engage with their local politician," Marshan says.

In addition, the Advocacy Kit includes a variety of educational fact sheets on current topical issues for MPs. Topics include:

- The Future Financial Profession;
- Achieving a comfortable retirement;
- The Royal commission into financial services in Australia;
- Industry funding model for ASIC;
- Improving access to advice - tax deductibility of advice fees;
- Improving consumer protections;
- What is financial planning?; and
- About the Financial Planning Association.

"While we may not always agree with what politicians and the Government are doing, it's important to understand that they have been elected as representatives of their constituents, so they need to be respected for the job they are doing," Marshan says.

"If you show them that level of respect, then they're more receptive to hearing the viewpoint you're putting forward."

Making a difference

But does engaging with politicians really work, after all, can one person's opinion really make a difference?

van Manen speaks from experience when he says "it can and it does".

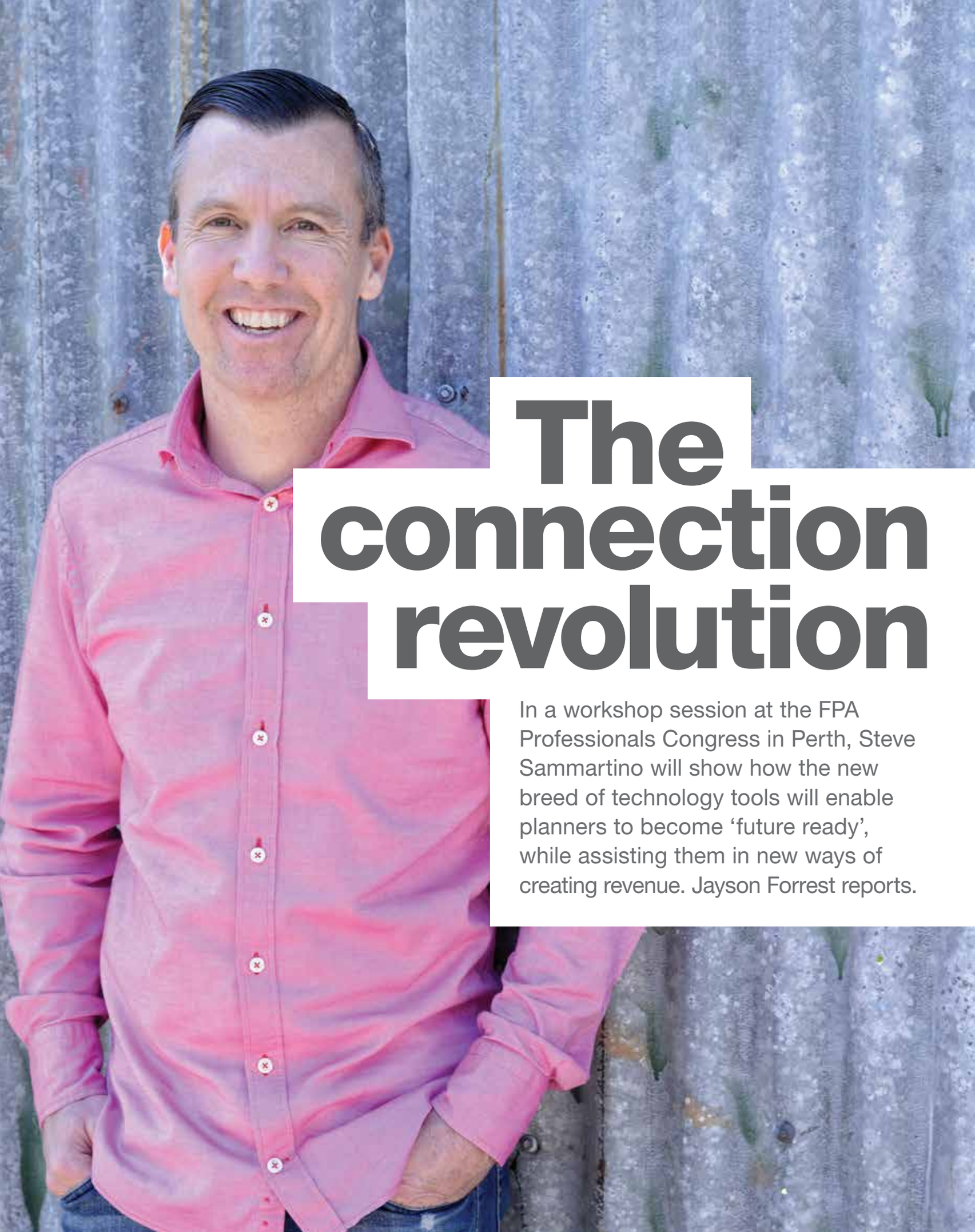
"It may not always be immediate but engaging with the political process is about persistence," he says.

van Manen believes the greatest success the financial planning profession is likely to have in the political process will be achieved by having planners collectively articulate the same position and for industry bodies, like the FPA, to also advocate the same position. It's a case of strength in numbers.

"So, it's not just about advocating with your local MP, but it's also about advocating within your industry association, like the FPA, and to ensure these industry bodies are properly representing their members' concerns and the issues their members are dealing with," van Manen says.

The FPA Advocacy Kit is available either as a complete booklet or as individual fact sheets.

To download the booklet or fact sheets, go to the Member Centre of the FPA website at fpa.com.au, select 'Your Resource Centre' and choose 'FPA Advocacy'.



The connection revolution

In a workshop session at the FPA Professionals Congress in Perth, Steve Sammartino will show how the new breed of technology tools will enable planners to become 'future ready', while assisting them in new ways of creating revenue. Jayson Forrest reports.

Ask any kid about building a backyard rocket and launching it, and it's something most of us have thought about doing in our younger years. But thinking and actually doing are two completely different things.

Steve Sammartino is one such 'young-at-heart' idealist who saw the skies above not as a challenge but as an opportunity. So much so, that four years ago he actually built and successfully launched a space shuttle, built out of lego, into Earth's orbit.

But why?

"Simply, to prove what's possible using low cost technology," Steve says. "This project would have cost several million dollars in the 1990s but only costed under $2,000 to do in 2012."

Steve is a futurist, technologist and entrepreneur, who sees the opportunities that constantly evolving technology can provide in future proofing businesses as we head into the next 10 years and beyond.

He attributes this evolution in technology to the law of accelerating returns.

"What happens with technology is that the power of the software informs us how to create the next iteration of the technology itself, things accelerate in terms of their cost effectiveness and technological improvement," he says.

Steve refers to Moore's Law, which demonstrates that the power of computing actually doubles every 18-24 months and the price of that technology effectively halves.

"But it's not just Moore's Law - there's more than 100 of these technology laws. So, I wanted to do an experiment to see what I could do. I bought a whole lot of parts off the internet, built the space shuttle out of lego and used a high altitude balloon to get the shuttle into the near space field, which is where you can see the curvature of the Earth," he says. "We succeeded in orbiting the Earth."

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

- **The connection revolution;**
- **Technology tools available to planners;**
- **How to experiment with the new breed of tools; and**
- **Finding new ways to create revenue.**

For Steve, the lego space shuttle was just an experiment to test the efficiency of using low cost technology readily available to anybody.

Connection revolution

Whilst always eager to test the boundaries of technology, Steve readily concedes that most people feel displaced about the revolution in technology that permeates all levels of society. But he ardently believes they shouldn't be.

"It's actually not a 'technology revolution' we're experiencing but a 'connection revolution', which is underpinned by technology," he says.

To demonstrate his theory, he shares another of his "crazy" experiments, that also pushed the boundaries of low cost technology, to reinforce his view on the connection revolution. This time it was creating a full size car and engine made out of lego, which included using an engine that operated entirely on air.

"What was interesting about the lego car was that we didn't invent any new technology but used existing technology. What we did was put things together in a new and interesting way. The pneumatic engine — which runs off compressed air — we used in the lego car was based on a version we found on YouTube.

"All the design software we used was free and available online. And interestingly, none of the tools we used to do this project were available 10 years ago."

As crazy as Steve's experiments were, they were about demonstrating the connectivity of technology for practical purposes.

"That's what they were about," he says. "People often don't realise just how exciting something can be until you do it in a way that's fun, like a drivable lego car. It's a great way of stirring up the imagination of people and getting kids excited about technology."

Creativity

Steve confesses to being a little off-centre when it comes to his approach to technology. But call him esoteric and it's a term he'll reluctantly admit to, but with a caveat: "Actually, I think we're all esoteric," he says. "We all have things that we dream of doing that are interesting and a little bit crazy, but few of us do it because society beats that creativity out of us. The indoctrination of conformity begins at school, but it's time it stopped."

Steve is encouraged by what he terms as the "youthification" of society, which he sees happening all around him, where people are rediscovering that it's acceptable to have fun again.

"Technological innovation means you do all these crazy things cheaper now," he says. "That's why there are 25 million cat videos on YouTube, because people do interesting things with their lives and want to share that with others.

"It's this childlike creativity, like the use of emojis - which you would have been ridiculed for using just 10 years ago - that drives society forward; it's what invents new industries; it's what creates new jobs; it's what creates good staff. And we see that happening everyday with technology."

Inspiration

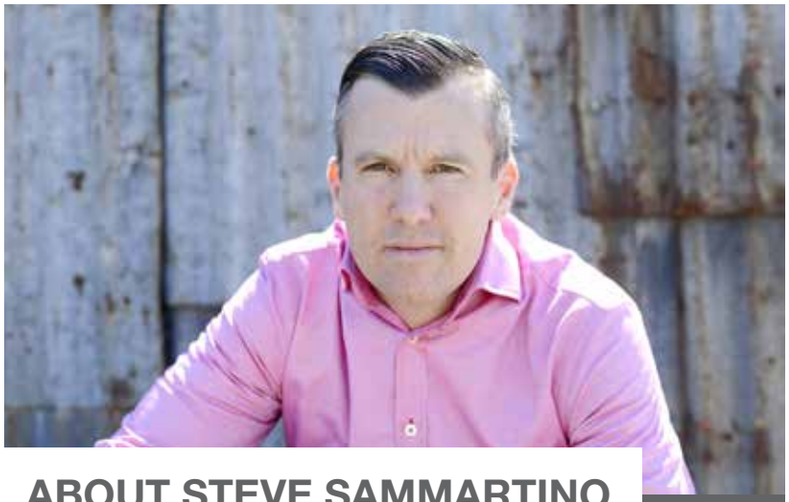
Having started his first business - an egg farm - at the age of 12, Steve served 15 years in the corporate world before returning to start-ups and entrepreneurship. Indeed, it's being an entrepreneur that has inspired him to accomplish the things he has with his life.

And the thing he most values about being an entrepreneur is freedom.

"I'm not into chasing rainbows and fat bonuses," he says. "I'd rather have a balanced life where I'm in charge of my own time and I can use technology to solve people's problems. That's my main objective as an entrepreneur."

It's this spirit of entrepreneurship and engagement of technology that Steve is particularly passionate about. And he hopes to instil this same level of passion in

Continues on page 22



ABOUT STEVE SAMMARTINO

Steve Sammartino is a futurist and business technologist.

At the age of 10, he wrote his first lines of computer code and at the age of 12, he was running his first business - an egg farm. He has since built and sold his own technology start-ups, and has worked at a director level at advertising and marketing agency, WPP, and at senior positions in consumer goods companies, Mondelez and Procter & Gamble.

He is the co-cost of radio show #Techtopia on ABC radio National - a look into emerging technology and its sometimes unexpected economic and social consequences.

He lectures part time at Melbourne University, and is the author of a bestselling book on the technology revolution, The Great Fragmentation, which was first published in 2014. He has written extensively on the topics of technology and business strategy.

Steve is involved in the venture capital industry and invests in business and new technology. His blog also has over 30,000 readers a month and is the biggest in its category.

planners attending his session at this month's FPA Professionals Congress.

"In order to become 'future ready' the first thing we have to do is experiment quickly and cheaply with things that don't impact your clients," Steve says.

"There's something interesting we do with start-ups. We experiment and play with new tools and technology as they arrive, but do this on the side of the business. This way you can try out new things, and gain a better understanding of how they work and can be used in your business. It's about playing with the tools before you introduce them to your clients."

In Steve's session on Thursday, 24 November, he will introduce planners to the new breed of technological tools that he believes will reshape the profession.

"I'll show planners how to play and experiment with these tools, and I'll explain how to implement these tools within a business and introduce them to their clients. These technological tools are a great way to create value to the business and the end-user experience," he says.

"I want to reduce everybody's fear over technology. Remember, this is a connection revolution. It's not about knowing how the technology works. It's about knowing what its capabilities are.

"By collaborating with other specialists, I want to teach planners the art of understanding the technology tools available and show them how to use these tools, so that they can go on a path of experimentation. This will enable them to find new ways to create revenue.

"This is all about the connection revolution, and how we can better understand and use technology to solve the problems of our clients," Steve says.

"So, get ready for the new world order."

Steve Sammartino is speaking at the FPA Professionals Congress on Thursday 24 November. To register to attend, go to fpacongress.com.au

Earn up to **15** CPD hours

FPA Professionals Congress Program: Future Ready

PROGRAM OVERVIEW

Time	Wednesday 23 November
7:30am	Registration opens
11:30am-2:30pm	Professional Practice Workshop
12:30pm-2:30pm	Paraplanner Workshop
2:30pm	Afternoon Tea
3:00pm	CONGRESS OPENING and KEYNOTE SESSION 1: Ange Postecoglou, Anna Meares and Tracey Holmes
5:00pm-7:00pm	Networking drinks

Time	Thursday 24 November			
7:00am	Networking breakfast			
8:30am	**Superannuation: How to get the money in!** *Tracey Scotchbrook*	**Demographic trends impacting your client relationships** *Andrew Inwood*	**Boost your brain - and boost your business** *Dr Helena Popovic*	**Are you future ready? Changing the way you work creates opportunity** *Steve Sammartino*
9:40am	**Strategies for accessing super, tax effectively** *Con Gotsis*	**Ethical challenges: Learning through case studies** *Dan Candura CFP®*	**Vocal intelligence: Express certainty and be more engaging** *Dr Louise Mahler*	**Tapping into clients' dreams** *Mark McCrindle*
10:40am	Morning Tea			
11:20am	**Tax effective estate planning** *Scott Hay-Bartlem*	**Protecting your professionalism** *Dr June Smith*	**Turn stress into success** *Dr Helena Popovic*	**Engaging clients through social media** *Corey Wastle and Olivia Maragna CFP®*
12:20pm	Lunch			
1:30pm	**Risky business: How to manage your best interests duty and manage claims effectively** *Mark Everingham CFP®*	**More Ethical challenges: Learning through case studies** *Dan Candura CFP®*	**Use smart nutrition to improve your professional performance** *Graeme Wright*	**Influence and trust - present with clarity and creativity** *Dr Louise Mahler*
2:40pm	**Investing in uncertain times** *Michael Furey CFP®*	**Working with Centrelink** *Nicole Della*	**The future of leadership - thinking ahead** *Gihan Perera*	**Reinventing performance management** *Alec Bashinsky*
3:40pm	Afternoon tea			
4:20pm	**The provision of care: It's not just about the aged** *Danielle Robertson and Alan Thomas CFP®*	**Latest policy and regulatory update** *Benjamin Marshan CFP®*	**Change your thinking** *Nadine Champion*	**Engaging clients through communication and connection** *Chris Helder*
6:30pm	Pre-dinner drinks			
7:00pm	Future2 Gala Dinner			

Time	Friday 25 November
7:30am	Women in Financial Planning Breakfast / Networking Breakfast
9:00am	KEYNOTE SESSION 2: Andrew Denton
10:45am	Brunch
12:00pm	KEYNOTE SESSION 3: Richard de Crespigny and Dr Michael Holt
1:30pm-2:00pm	Farewell afternoon tea

* Congress program subject to changes.

Times and events may vary slightly. For more information, go to fpacongress.com.au

Evolve | Grow | Inspire | Engage

Congress Workshop Program

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

EVOLVE

Led by industry experts, these sessions will enhance your technical capability and critical thinking in financial planning specialty areas.

Superannuation: How to get the money in!

SPEAKER: **Tracey Scotchbrook**, Director - Superannuation, PKF Lawler

TIME: 8:30am-9:30am, Thursday 24 November
CRITICAL THINKING (1 CPD hour)

Strategies for accessing super, tax effectively

SPEAKER: **Con Gotsis**, Director, Pascoe Partners

TIME: 9:40am-10:40am, Thursday 24 November
CRITICAL THINKING (1 CPD hour)

Tax effective estate planning

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

TIME: 11:20am-12:20pm, Thursday 24 November
CRITICAL THINKING (1 CPD hour)

How to manage your best interests duty and manage claims effectively

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

TIME: 1:30pm-2:30pm, Thursday 24 November
CRITICAL THINKING (1 CPD hour

Investing in uncertain times

SPEAKER: **Michael Furey CFP®**, Managing Director, Delta Research & Advisory

TIME: 2:40pm-3:40pm, Thursday 24 November
CRITICAL THINKING (1 CPD hour)

The provision of care: It's not just about the aged

SPEAKER: **Danielle Robertson**, Director, Danielle Robertson Consulting

Alan Thomas CFP®, Practice Principal, Aspire2 Wealth Advisers

TIME: 4:20pm-5:20pm, Thursday 24 November
CAPABILITY (1 CPD hour)

GROW

These sessions are designed for the practice management professional and will improve the operational side of your financial planning practice.

Demographic trends impacting your client relationships

SPEAKER: **Andrew Inwood**, Founder and Principal, CoreData

TIME: 8:30am-9:30am, Thursday 24 November
CAPABILITY (1 CPD hour)

Ethical challenges: Learning through case studies (1-4)

SPEAKER: **Dan Candura CFP®**, Ethics guru

TIME: 9:40am-10:40am, Thursday 24 November
ETHICS (1 CPD hour)

Protecting your professionalism

SPEAKER: **Dr June Smith**, Lead Ombudsman, Financial Ombudsman Service

TIME: 11:20am-12:20pm, Thursday 24 November
PROFESSIONAL CONDUCT (1 CPD hour)

More Ethical challenges: Learning through case studies (5-8)

SPEAKER: **Dan Candura CFP®**, Ethics guru

TIME: 1:30pm-2:30pm, Thursday 24 November
ETHICS (1 CPD hour)

Working with Centrelink

SPEAKER: **Nicole Della**, Financial Information Service Officer, Centrelink

TIME: 2:40pm-3:40pm, Thursday 24 November
CAPABILITY (1 CPD hour)

Latest policy and regulatory update

SPEAKER: **Benjamin Marshan CFP®**, Head of Policy and Government Relations, FPA

TIME: 4:20pm-5:20pm, Thursday 24 November
CAPABILITY (1 CPD hour)

ENGAGE

These sessions will cover how best to engage, grow and develop your clients, your staff and your business.

Are you future ready? Changing the way you work creates opportunity

SPEAKER: **Steve Sammartino**, Digital expert and author

TIME: 8:30am-9:30am, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Tapping into clients' dreams: Understanding and engaging with ever-changing clients

SPEAKER: **Mark McCrindle**, Social researcher

TIME: 9:40am-10:40am, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Engaging clients through social media and building your brand

SPEAKERS: **Corey Wastle CFP®**, Co-founder, Verse Wealth

Olivia Maragna CFP®, Co-founder, Aspire Retire

TIME: 11:20am-12:20pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Influence and trust - present with clarity and creativity

SPEAKER: **Dr Louise Mahler**, Communications specialist

TIME: 1:30pm-2:30pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Reinventing performance management

SPEAKER: **Alec Bashinsky**, National Partner: People and Performance, Deloitte Australia

TIME: 2:40pm-3:40pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Engaging clients through communication and connection

SPEAKER: **Chris Helder**, Neuro-linguistic/ Communications specialist

TIME: 4:20pm-5:20pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

INSPIRE

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

Boost your brain - and boost your business

SPEAKER: **Dr Helena Popovic**, Brain specialist

TIME: 8:30am-9:30am, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Vocal intelligence: Express certainty and be more engaging

SPEAKER: **Dr Louise Mahler**, Communications specialist

TIME: 9:40am-10:40am, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Turn stress into success

SPEAKER: **Dr Helena Popovic**, Brain specialist

TIME: 11:20am-12:20pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Perform better, smarter: Use smart nutrition to improve your professional performance

SPEAKER: **Graeme Wright**, Corporate athlete coach

TIME: 1:30pm-2:30pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

The future of leadership - thinking ahead

SPEAKER: **Gihan Perera**, Futurist

TIME: 2:40pm-3:40pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

Change your thinking: Have courage and believe in yourself

SPEAKER: **Nadine Champion**, High performance coach

TIME: 4:20pm-5:20pm, Thursday 24 November
ATTRIBUTES and PERFORMANCE (1 CPD hour)

The X Factor

Continued pressure on management fees and the need to generate excess returns in this low growth and low return environment are putting serious stress on active managers. Will low cost mean the death of active management? Jayson Forrest investigates.

The GFC may have shocked global markets back in 2007, but the ripple effect continues today. Continued market volatility and geo/political instability have seen investors worldwide retreat to the relative security of passive/index strategies, with fund inflows close to doubling over the past eight years at the expense of active strategies.

The reasons behind this flight to safety are varied and include:

- Increasing cost awareness of investors driven in part by Mysuper and industry fund advertising;
- A perception that active managers have struggled to add value after fees since the GFC;
- The simplicity of the passive investment approach, which planners find easier to explain to clients; and
- Lower fees charged by passive managers compared to active managers.

But in this low growth, low return and ultra-low interest rate environment, active managers are beginning to fight back by offering better value in terms of the fees they charge, and through a new breed of lower cost 'factor', or 'smart beta', strategies.

What are factor strategies?

Factor strategies are relatively new to the Australian market, although have been offered in other markets, like the US, for sometime.

A factor strategy combines factor exposure decisions into the portfolio construction process.

Essentially, the strategy involves identifying factors, such as relative price earnings, relative volatility, quality and other risk-based or market segment criteria, and determining an appropriate allocation to the identified factors.

According to Scott Pappas, an investment analyst at Vanguard, and Joel Dickson, the global head of investment research and development at Vanguard, factors are the underlying exposures that explain and influence an investment's risk.

For example, the underlying factor affecting the risk of a broad market-cap-weighted stock portfolio is the market factor, also called equity risk. Therefore, market exposure can be considered a factor. So, in this case, not only does the factor exposure influence the risk of a market-cap portfolio, but it has

TABLE 1: COMMON FACTOR DEFINITIONS	
Factor	**Description**
Market	Stocks have earned a return above the risk-free rate.
Value	Inexpensive stocks have earned a return above expensive stocks.
Size	Stocks of small companies have earned a return above stocks of large companies.
Momentum	Stocks with strong recent performance have earned a return above stocks with weak recent performance.
Low volatility	Stocks with low volatility have earned higher risk-adjusted returns than stocks with high volatility.
Term	Long-maturity bonds have earned a return above short-maturity bonds.
Credit	Low-credit bonds have earned a return above high-credit bonds.

Source: Vanguard

also earned a return premium relative to a 'risk-free' asset.

There are a large range of factors, with the seven most common being: market, value, size, momentum, low volatility, term and credit. Table 1 describes these factors.

Factor strategies are based on the ability of the manager or investor to identify factors that will earn a positive return on investment. Interestingly, many investors already hold certain factor exposures within their portfolios. For example, a portfolio of Australian equities with low price earnings ratios is likely to have exposure to the 'value' factor.

Eugene Podkaminer, the senior vice president, Capital Markets Research Group at Callan Associates agrees, saying the way we have traditionally invested has focused on asset classes, like equities, fixed income and property. However, he says just under the surface, each asset class is made up of multiple factors driving risk and return.

A metaphor he uses to explain factors is: "If asset classes are like complex molecules, factors are the atoms that serve as the building blocks."
He says that during a crisis, like the GFC, molecules that were supposed to have different characteristics, turned out to be composed of atoms that moved together; in other words, asset classes that you typically wouldn't think of as being correlated actually were.

"From 2008 onwards, looking at the cross-sectional data, you definitely see correlation has increased significantly and noticeably," Podkaminer says.

> If asset classes are like complex molecules, factors are the atoms that serve as the building blocks.
>
> — EUGENE PODKAMINER

"If we combine risk factors together into a portfolio instead of asset classes, potentially, we can get to a more efficient portfolio—returns that are comparable to the traditional model with a much better risk-adjusted tradeoff."

IOOF portfolio manager - Australian equities, Dan Farmer views factor strategies as an evolution of the investment strategy toolbox for planners that should be considered to fill specific roles in client investment portfolios.

"Probably the most exciting aspect of the evolving breed of factor strategies is the flexibility they provide in transparency and managing the overall cost of portfolios, while still allowing for a degree of active return."

Farmer believes that in many respects, factor strategies simply capture an element of what active managers do, but in a systematic way.

"For example, a significant proportion of the return a value active manager generates can potentially be captured by a value factor strategy that systematically owns stocks trading on cheap valuation measures, such as price earnings ratio," he says. "This is an oversimplified example, but in principle, many of the factors, such as value, are being commoditised into factor strategies."

Product evolution

Product evolution is something that excites Farmer and he believes the emergence of low cost factor and smart beta strategies will be something that planners and investors alike will find particularly appealing.

So, how is the market for these products evolving?

"The pressure on fees and the need to generate excess return in this low return environment, are seeing the likes of factor strategies evolving very quickly under current market conditions. So, if we're getting mid single digit returns for balanced funds, any little bit of excess return you can generate after fees from an active strategy becomes increasingly important," Farmer says.

"The market is evolving relatively quickly. We're seeing new strategies that are trying to capture excess return over and above the passive market cap index in a systematic way."

Farmer says there has been a rapid growth in factor strategies via ETFs, and the institutional space is adopting factor strategies quite aggressively.

Farmer believes the market is evolving in this way, which is helping to reprice some of the excess return investors used to pay full fees for in the past.

"It's also making active managers work harder," he says. "I'm starting to see some managers that have been traditional fundamental active managers begin to offer more factor-based strategies. They are commoditising part of their process and offering say, a 'momentum' factor or a 'low volatility' or 'value' factor at a cheaper price, and then for more stock specific return they offer high active share strategies.

"So, over time, active managers may begin to split their strategies -

Continues on page 28

Dan Farmer

high active share strategies, that are very high in stock specific risk, and then some factor strategies."

Farmer also believes more managers that have been considered deliverers of traditional passive market cap index products, starting to deliver factor strategies, as they recognise that clients are looking for additional excess return, particularly when total returns are low, but still don't want to pay the high fees.

"So, we'll continue to see fee pressure all around and more of these factor strategies being offered by both active managers and traditional passive managers."

Cost

But when it comes to manager selection - whether active or passive - is it just about fees? Surely the objective of any manager is to deliver investment returns to the investor?

"Absolutely," says Farmer. "At the end of the day, is low cost what clients really want? Our client surveys tell us that only 4 per cent of clients said lower fees were of critical importance to them. Whereas 76 per cent said achieving their long-term investment objectives were critically important for them.

"So, even though we are currently seeing a big flow of funds into low fee passive products, the client just really wants to make sure, net of fees and costs, they are hitting their investment objectives. By taking an active approach, factor strategies can help them achieve this."

Cost wise, factor strategies are cheaper than active strategies, often sitting somewhere between a passive strategy and an active strategy. Farmer believes that over time, factor strategies will increasingly become commoditised and cheaper.

"From a planner's perspective, there may be higher costs in the management of those factors in terms of rebalancing, doing research on those factors and really making sure they understand them. Therefore, if you want to get exposure to these lower cost factors and have portfolios that give you an excess return above passive but with lower fees, you're probably better of using these strategies via a product," he says. "Where a fund manager has scale, they are able to manage those risks at a minimal cost for the planner.

"Essentially, if a planner is already paying full fees to an active manager to, more or less, deliver them a factor return, there are factor strategies currently in the marketplace that basically captures most of the return that the active manager is generating but at a lower cost."

Appropriate

When it comes to deciding whether a factor strategy is appropriate for a client, Farmer says planners should remember that asset allocation remains the key driver of total returns in any diversified portfolio. The decision of which asset classes to invest in and how much, is one that needs to be taken carefully and re-tested as market conditions change.

"Factor strategies used in a targeted risk controlled manner can play an important role in delivering a well diversified portfolio, while keeping management fee expenses under control," Farmer says.

He advises that planners decide which parts of their client's portfolio it makes sense to save fees on, thereby using a traditional passive approach to investing, and where to spend a little more and use a factor strategy, and where an active manager is best suited to capture return.

"Our analysis suggests that some strategies and asset classes may be best suited to investment via passive index based strategies, particularly where the opportunity to add active return is limited or the diversification benefits of the asset class is a central driver of investment," Farmer says.

"Some asset classes are really best suited to active managers where stock specific return is high and the opportunity to outperform fees is high. Small companies investment is an area I see traditional active management well suited to."

However, it should be noted that while factor strategies can be effective when applied across asset classes, factors associated with different asset classes may still exhibit a high level of correlation, which is something investors need to be mindful of.

Implementation

So, how does a planner implement a factor strategy in a client's portfolio?

Farmer advises to closely look at the market and address each asset class on a case-by-case basis.

"Where we don't find there is any particular systematic or active return to be had, we allocate to pure passive managers - paying minimal fee for the traditional market cap index. This is because, we think you need to be very targeted in how you apply these factor strategies. We would recommend that planners look at each asset class and strategy on a case-by-case basis and see if they can potentially use some of the lower cost factor strategies to enhance their outcome."

Farmer says there is potential for factor returns to add value in many asset classes, particularly in equities, with factor strategies starting to appear in the fixed interest asset class. "So, you really need to make sure that the factor strategy makes sense on a long-term basis and there's economic rationale for that factor," he says.

"We're also seeing some newer factors coming into the marketplace, like lower volatility factors and momentum factors. Again, you need to be aware of the risk but some of these factors in a portfolio can help deliver a better overall outcome. And other strategies, while not strictly factor strategies, like equally weighted, can be good diversifiers in a portfolio.

"So, from a planner's point-of-view, certainly it's a way they can deliver more diversification into their clients' portfolios but they have to be aware of the risks."

> Factor strategies used in a targeted risk controlled manner can play an important role in delivering a well diversified portfolio, while keeping management fee expenses under control.
>
> — DAN FARMER

Risks

And what of the risks associated with factor strategies?

While factor strategies sound like an attractive low cost alternative to traditional active management, they also come with their own set of risks that investors need to be aware of. This includes their tolerance for performance risk relative to benchmark, the robustness of the investment methodology supporting specific factors, and the cyclical variation of factor performance.

Significantly, factor-based investing strategies does push a lot of decisions back onto the investor or planner. They need to be mindful that factor investing is not always a simple buy and hold strategy, instead requiring a very intensive management process to ensure investors are getting the factor exposure they want. That's where planners are better off using this strategy via a product.

Continues on page 30

"Particular factors can perform well for a long period of time, and often this will result in a proliferation of products targeting this factor, but factor returns can be cyclical and as market conditions change, factors fall out of favour and underperform. When looking at factors, seek out the longest data series you can find and analyse the performance of the factor over a number of discrete periods in the past," Farmer says.

Another related issue is that factors can become overvalued and have crowded trades, recently in relation to low volatility stocks and high yield stocks. Planners should be aware of the valuation of the factor they are considering and take note of what controls are in place to mitigate these valuation risks.

"So, you need to have a methodology where you can actively manage your allocation to these factors. It's almost an extension of your asset allocation process; you need to be aware of how those factors are valued and perform through time."

Investors also need to understand how factor strategies are put together. For example, if you look at value as a factor, there's a lot of different flavours in terms of how that factor is actually defined — such as value stocks with a low price earnings ratio, low price to cashflow or low price to book - depending on how you define and capture that particular factor, you can get a very different outcome.

"While factor strategies are great, there are a lot of decisions that investors need to consider in terms of which factor to pick, what methodology they use to capture that factor, and managing the exposure to that factor through time.

> Planners need to consider their clients' tolerance for active risk, the investment methodology behind specific factors, the cyclicality of factor performance, and their clients' tolerance for these swings in performance.

"We think that in this environment you have to maintain discipline and keep your portfolio diversified — to avoid some of these crowded trades we're seeing in the market.

"By making use of some of these new strategies available in the marketplace, where you can get away from traditional market cap based indices and get into some strategies that are relatively low priced, you can potentially get some excess returns, while maintaining reasonable diversification within your portfolio."

Consideration

With the inherent risks and active management involved in factor strategies, Farmer encourages planners to seek professional help if considering implementing factor strategies for clients.

"Factor strategies are something that most planners are still unfamiliar with. As such, I would recommend that a planner has a team familiar with this type of investing overseeing it as part of your manager selection and asset allocation modelling decision," he says.

"The strategy is new and planners are still trying to understand it. I've seen research that shows planners are interested in this space but they don't feel they really understand it well. Their clients are more aware of fees and they are feeling this pressure. But they are also seeing that in a low return environment, they need to work portfolios a little harder than the traditional market cap index," he says.

"Factor (or smart beta) strategies tick both these boxes, so that's why I think we will increasingly see more interest with these strategies. The challenge now is, how do planners use these strategies? Do they feel confident that they understand them, and where can they go and get a solution in this space that takes advantage of this new toolbox to build portfolios?"

Factor strategies are an evolution of the investment strategy toolkit for planners that can be considered to fill specific roles in client investment portfolios.

While factor strategies seek to achieve specific investment risk-and-return outcomes, greater transparency, increased control, lower costs, and excess returns over the market index, investors need to be mindful of the risks associated with this type of strategy.

As such, planners need to consider their clients' tolerance for active risk, the investment methodology behind specific factors, the cyclicality of factor performance, and their clients' tolerance for these swings in performance.

"There is a variety of factor strategies currently available in the marketplace that can be used in portfolios. We've built a product that blends both passive and active, with factor-based strategies, in an optimal way that delivers a low cost product targeting excess return above the traditional index," Farmer says. "It's all about how planners and investors make use of these strategies."

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

Centrelink – gifting and deprivation

JOHN PERRI
AMP

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes

- Breaching the gifting limits
- Gifting and relationship breakdown
- Gifting and death of a partner
- The difference between gifting and a loan

The Centrelink gifting and deprivation rules are broadly designed to prevent people from giving away assets or income over a certain level in order to increase pension and allowance entitlements.

Gifts made in excess of certain amounts are treated as an asset and 'deemed' as a financial investment under the income test for a period of five years from disposal.

What are the gifting limits?

The gifting rules do not prevent a person from making a gift to another person. Rather, they cap the amount by which a gift will reduce a person's assessable assets for means testing purposes.

There are two gifting limits which apply to a single person or to the combined amounts gifted by a couple:

- Up to $10,000 each financial year; and
- A limit of $30,000 over a five financial year rolling period.

The $10,000 and $30,000 limits apply together. That is, although people can continue to gift assets of up to $10,000 per financial year without penalty, they need to take care not to exceed the gifting free limit of $30,000 over a rolling five-year period.

Example 1

Fred, a single pensioner, has financial assets valued at $400,000. One of his objectives is that he would like to help his adult daughter, Linda, and grandson, Yannick, financially. He plans to make the following gifts as outlined in Table 1.

Under this gifting plan, Fred has not exceeded either gifting rule. This is because he has kept under the $10,000 in a single year rule and also within the $30,000 per rolling five-year period. In fact, Fred could have gifted $6,000 per financial year over this five-year period and not be caught under either rule.

This results in Fred's assessable assets falling by $5,000 per annum or $25,000 over the five-year period.

What happens if the gifting limits are breached?

If the gifting limits are breached, the amount in excess of the gifting limit is considered to be a deprived asset of the person and/or their spouse.

The deprived amount is then counted by social security for five calendar years from the date of gift, during which time it is assessed as an asset for asset test purposes and subject to deeming as a financial investment under the income test.

After the expiration of the five-year period, the deprived amount is neither considered to be a person's asset nor deemed.

Example 2

Meryl is eligible for the Age Pension. She has given away the following amounts as outlined in Table 2.

In this case, $10,000 of the $20,000 given away exceeds the gifting limit for the financial year, so it will continue to be treated as an asset and subject to deeming under the income test for five years from the date of the gift.

It does not matter in this case that Meryl has not exceeded the rolling $30,000 limit as the $10,000 financial year limit has been breached.

Example 3

Barry is eligible for the Age Pension. He has given away the following amounts as outlined in Table 3.

In this case, although Barry never exceeds the $10,000 limit in any given financial year, he does

TABLE 1

Financial year	2015/16	2016/17	2017/18	2018/19	2019/20
Amount gifted	$5,000	$5,000	$5,000	$5,000	$5,000

TABLE 2			
Financial year	Amount gifted	Deprived asset assessed using the $10,000 in a financial year free area rule	Deprived asset assessed using the $30,000 five-year free area rule
2015/16	$20,000	$10,000	$0

exceed the rolling $30,000 limit in years four and five. If he continues to gift in the 2020/21 financial year and onwards, this will result in further deprived assets.

What is a gift?

For the deprivation provisions to apply, it must be shown that a person has destroyed or diminished the value of an asset, income or a source of income. A person disposes of an asset or income when they:

- engage in a course of conduct that destroys, disposes of or diminishes the value of their assets or income, and
- do not receive adequate financial consideration in exchange for the asset or income.

Adequate financial consideration can be accepted when the amount received reasonably equates to the market value of the asset. However, it may be necessary to obtain a valuation from the Australian Valuation Office.

Example 4

Alena, who is eligible for the Age Pension, sells an investment property valued at $500,000 to her son Boris for $300,000.

Although Boris has paid for this asset, he has not paid the full market value. This will result in $200,000 being treated as a gift from Alena.

For Centrelink purposes when calculating Alena's payment, $190,000 (the amount in excess of the $10,000 limit) will be assessed as an asset and subject to deeming for five years from the date of the gift.

It should also be noted that the deprivation rules will also apply where the asset gifted is ordinarily exempt under the assets test, such as a principal home.

Further, should an exempt asset (such as the principal home) be gifted, not only will the excess portion of this gift be assessable as an asset, it will also be deemed as a financial asset for the five-year period. So, not only has this previously exempt asset become assessable under the asset test, it has also caused an income test assessment due to the deeming provisions being applied.

TABLE 3					
Financial year	2015/16	2016/17	2017/18	2018/19	2019/20
Amount gifted	$9,000	$9,000	$9,000	$9,000	$9,000
Gifts over five years	$9,000	$18,000	$27,000	$36,000	$45,000
Deprived asset	$0	$0	$0	$6,000	$15,000

Are some gifts exempt from the rules?

Certain gifts can be made without triggering the gifting provisions. Broadly speaking, these include:

- Assets transferred between members of a couple. A common example is where a person who has reached Age Pension age withdraws money from their super and contributes it to a super account in the name of their spouse who has not yet reached Age Pension age.
- Certain gifts made by a family member or a certain close relative to a Special Disability Trust.
- Assets given or construction costs paid for a 'granny flat' interest.

Gifting prior to claim

Any amounts gifted in the five years prior to grant of payment are also subject to the gifting rules.

As an example, a client who gifted $100,000 four years before their application for Centrelink/DVA will have a deprived asset of $90,000 for the first year of their income support payments (i.e. the one remaining year of the five-year deprivation period).

The deprivation provisions will not apply when a person has disposed of an asset within the five years prior to grant, but they could not reasonably have expected to become qualified for payment. For example, where a person only qualifies for a social security entitlement after the unexpected death of a partner or job loss.

Gifted assets that are returned

Where a person disposes of an asset, and the asset is later returned to the person, it may be appropriate to consider whether the disposal actually occurred in the first place.

Where a disposal of assets is taken to have occurred, and the assets are returned to the person, any deprived amount ceases to be assessable from the date the asset is returned to the person.

Gifting and deceased estates

The gifting rules apply to a person's interest in a deceased estate if the person does any of the following:

- Gives away their right to their interest in a deceased estate for no/inadequate consideration;
- Directs the executor to distribute their interest in a deceased estate for no/inadequate consideration; or
- After the estate has been finalised, gives away their interest in a deceased estate to a third party for no/inadequate consideration.

The above rules apply even if the deceased died without a will and the estate is administered based on the relevant state intestacy formula.

Gifting and relationship breakdown

When a relationship breaks down, there is often a property settlement to sort out which assets will belong to each party.

When a person gives away assets as a result of a court order or property settlement following a relationship breakdown, the value of the assets given away will not be treated as a gifted/deprived asset. That's because satisfying the demands of a court order or property settlement is regarded as adequate consideration for the asset.

Continues on page 34

TABLE 4

Legal owner of the deprived asset	Assessment of deprived assets
Jointly*	• does not change for either partner. • 50% of the value of the asset or income continues to be held against each person.
By one partner	• becomes fully held against the partner who owned the assets or income.

** Both joint tenants and tenants-in-common ownership.*

However, assets gifted prior to the separation that resulted in deprivation also need to be considered. Now that the couple have separated, how will the deprived assets be assessed for each person?

This depends on who legally owned the asset at the time the gift was made, as demonstrated in Table 4.

Gifting and death of a partner

In some circumstances, couples in receipt of a social security benefit may give away assets prior to the death of one of them. Prior to death, any deprived assets would have been assessed against the pensioner couple for five years from the date of the disposal. Now that a member of the couple has passed away, how will the deprived assets be assessed for the surviving partner?

The amount of deprivation that continues to be held against a surviving partner depends on who legally owned the assets prior to death. See Table 5.

TABLE 5

Original legal owner	Assessment
Joint*	Half of the asset value of the deprived asset will be assessed against the surviving spouse.
Deceased partner	No amount will be assessed against the surviving partner.
Surviving partner	The full amount will continue to be assessed against the surviving partner.

** Both joint tenants and tenants-in-common ownership.*

The difference between gifting and a loan

In some cases, an income support recipient may choose to help out a child/grandchild by loaning money to assist with a home purchase or starting a business. A loan made by an income support recipient is not considered a gift, but is a financial asset and subject to the deeming provisions for the income test. From a Centrelink point of view, there is no compulsion that the loan terms are on a commercial 'arms-length' basis.

The impact of a loan will generally have no effect on an income support recipient's asset position, except in the case the funds have been drawn from an exempt asset. Two common examples are superannuation accumulation for clients under Age Pension age or a line of credit against an income support recipient's principal home.

Example 5

Graham, aged 66, has redeemed his $30,000 term deposit and loaned this money to his son, Stuart.

This will have zero impact on Graham's Age Pension, as the $30,000 has moved from one financial asset to another – term deposit to loan.

What if Graham took out a $30,000 loan against his home and then on lent the money to Stuart?

This changes Graham's assessment, as he has used a non-assessable asset in his home to release $30,000, which is an assessable asset in the form of the loan to Stuart. This $30,000 loan will count as an asset for Graham and will be deemed in his income test calculation.

Whilst a loan made by an income support recipient is not classed as deprivation, the forgiveness of a loan/debt can be. In the above example, if Graham decided at a later stage to forgive this $30,000 loan to Stuart then he would have a deprived asset of $20,000 ($30,000 less the $10,000 financial year limit). This $20,000 will be carried forward as a financial asset for five years from the date the loan is forgiven.

TABLE 6

Financial year	2015/16 June 2016	2016/17 July 2016	2017/18 July 2017
Amount gifted	$10,000	$10,000	$10,000
Deprived asset	$0	$0	$0

Example 6

If Stuart did not require the $30,000 at one time, Graham could consider gifting the $30,000 in $10,000 increments over three financial years, as outlined in Table 6.

Based on this example, Stuart would have his $30,000 over a period of approximately 14 months with no deprivation. Graham would also have his Centrelink asset position reduced by $30,000 over the 14-month period.

If Stuart needed the entire $30,000 immediately, then Graham could consider a combination of gifting, a loan and forgive part of the remaining loan over the following two financial years, as outlined in Table 7.

1 January 2017 asset test changes

In June 2015, changes to the Centrelink asset tests commencing 1 January 2017 were legislated.

Gifting may be a potential solution for some income support recipients affected by these measures. It is important, however, that the gifts

TABLE 7

Financial year	2015/16 June 2016	2016/17 July 2016	2017/18 July 2017
Amount gifted	$10,000	$10,000*	$10,000*
Amount loaned	$20,000	$0	$0
Loan forgiven	$0	$10,000	$10,000
Deprived asset	$0	$0	$0

** The $10,000 partial forgiveness of the loan in the 2016/17 and 2017/18 financial years will be assessed as a gift, however, as Graham does not exceed $10,000 in any one financial year, he does not trigger any deprivation. Graham also stays within the $30,000 over five year limit in this example. The $30,000 is again completely removed from Graham's asset base in approximately 14 months, compared to giving the entire $30,000 in June 2016 and having a $20,000 deprived asset for five years.*

are in line with the client's goals and objectives, and they understand the long-term impact this reduction in asset base may have on their standard of living in retirement.

Should a gifting strategy be identified as suitable after taking into account a client's goals and objectives, consideration could be given to gifting an amount of $10,000 before 30 June 2016. This gift will not be in excess of the financial year limit and as a new financial year starts on 1 July 2016, another $10,000 could be gifted between 1 July 2016 and 31 December 2016.

As a result of this, a client's asset base will be reduced by $20,000 before the 1 January 2017 asset test changes take effect.

John Perri, Technical Services Manager, AMP TapIn.

QUESTIONS

1. On 20 April 2016, Robert (age 66) gives away $30,000 to his daughter Amanda. The Centrelink ramifications for Robert are?

a. His assessable assets will fall by $30,000 as he has stayed within the rolling five years $30,000 gifting limit.

b. Robert will have a deprived asset of $30,000, which will be assessed as a financial asset until 20 April 2021.

c. Robert will have a deprived asset of $20,000, which will be assessed as a financial asset until 20 April 2021.

d. As the funds have gone to a child of the Centrelink recipient there are no gifting ramifications.

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2. Andrew and Betty are age pensioners. Andrew passes away and as part of his will, he bequeaths a $300,000 property owned solely by him to his daughter, Jenny. As a result, Betty will have a $290,000 deprived asset for five years.

a. True.

b. False.

3. Gerald (age 67) has an investment property valued at $500,000. He sells this property to his son, Roger, for $400,000. The effect on Gerald's Centrelink will be?

a. Nil. Gerald can sell this asset for whatever value he chooses.

b. Gerald will have a deprived asset of the full $500,000, as he has sold an asset at less than market value.

c. Gerald will have a deprived asset of $100,000.

d. Gerald will have a deprived asset of $90,000.

4. Peter gifted $300,000 to his sister, Debbie, on 1 July 2013. On 1 July 2016, he makes an application for the Age Pension. The assessment of this gift for Centrelink means testing will be?

a. It will not be assessed, as Peter gifted the funds before his application.

b. Peter will have a deprived asset of $290,000 for five years from 1 July 2016.

c. Peter will have a deprived asset of $290,000 for five years from 1 July 2013.

d. Peter will have a deprived asset of $300,000 for five years from 1 July 2013.

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Financial planning opportunities with 'untaxed' super funds

BROOKE LOGAN
UNISUPER

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes

- Constitutionally protected funds
- Deferral of tax on earnings and contributions
- Concessional contributions
- Minimising tax on withdrawal

Background

Although becoming increasingly less common, there are still a number of untaxed or constitutionally protected funds (CPFs) in Australia.

CPFs are untaxed super funds that do not pay tax on contributions or earnings they receive. They are operated by some state governments in Australia for their employees and are also often created for members of the judiciary. CPFs can be both accumulation style and defined benefit schemes.

Some well known CPFs are:

- GESB West State Super and Gold State Super (WA State Government);
- Super SA (SA State Government); and
- Defence Force Retirement and Death Benefits Scheme.

Under the Australian constitution, state government assets cannot be taxed by the Commonwealth, so different arrangements apply to concessional super contributions made to CPFs.

Essentially, no tax is paid on contributions or earnings until the member leaves the fund. Instead, members are taxed at the time they access their benefit in accordance with Australian Taxation Office rules for untaxed funds. This could be triggered by withdrawing the funds upon meeting a condition of release or rolling over to a taxed super fund or income stream.

The unique characteristics of CPFs open up a number of financial planning strategies and considerations when advising clients who are members of such schemes.

Deferral of tax on earnings and contributions

The deferral of tax on benefits within a CPF may have the benefit of enhancing the growth of the client's retirement egg.

For example, Gaby, age 58, receives $35,000 of pre-tax contributions to a taxed super fund in the 2015-16 financial year. The net amount of $29,750 earns gross 6 per cent per annum or 5.22 per cent after tax and fees. At the end of five years, the balance has grown to $38,370.

Kellie, age 58, also receives $35,000 of pre-tax super contributions in the 2015-16 financial year. However, her super fund is a CPF. Assuming the same pre-tax rate of return of 6 per cent, at the end of five years, Kellie's super balance has grown to $46,838. At this time, she rolls the benefits over to a taxed super fund. Tax of 15 per cent on the balance or $7,026 is deducted, reducing the net benefit to $39,812.

Over a five year period, Kellie has additional retirement savings of $1,442 compared to Gaby. This is a further 4.1 per cent return on the original contribution of $35,000 as a result of the deferral of tax.

Concessional contributions

Pre-tax or concessional contributions made to a CPF do not count towards the client's annual concessional contribution cap, which is currently $30,000 (or $35,000 for those age 49 or over at 30 June).

Therefore, when dealing with clients on the higher marginal tax rates with surplus income, there is an opportunity to aggressively salary sacrifice to simultaneously build their super whilst managing their personal tax.

An 'untaxed plan cap' applies to a member's untaxed superannuation benefits. This is a lifetime limit, which is currently $1.415 million (indexed annually) and applicable to each superannuation fund. This is the amount that can be paid as a lump sum or rolled to a taxed superannuation fund and still enjoy concessional tax treatment.

If a client exceeds their cap of $1.415 million within the fund, tax of 49 per cent on the excess will be deducted before the benefits are rolled over or withdrawn.

Example

Betty is 47 and earns a salary of $230,000 per annum. She has a large surplus cash-flow and is keen to utilise her income more tax-effectively.

She is a member of an accumulation style CPF and her employer makes Super Guarantee contributions of 9.5 per cent ($21,850 per annum) on her behalf.

She makes salary sacrifice contributions of $60,000 in the 2016-17 financial year, bringing her marginal tax rate from 49 per cent to 39 per cent. This reduces her personal tax by an estimated $28,400. Her remaining net annual 'take home pay' of around $115,000 is sufficient to cover her expenditure requirements.

If Betty was in a taxed super scheme, she would only be able to make salary sacrifice contributions of $8,150 before reaching her annual $30,000 cap. This would provide an estimated tax saving of $3,993.

Both Betty's projected tax savings and accumulation of retirement savings are significantly lower within the constraints of the taxed super fund.

Non-concessional contributions

Any non-concessional or after-tax contributions made to a CPF are subject to the same non-concessional contribution cap as contributions to a taxed super fund. This is currently $180,000 per annum or up to $540,000 over a three year period for persons under age 65.

Increasing the tax-free amount

The service period prior to 1 July 1983 forms part of the tax-free component of a client's super benefit. This portion is commonly referred to as the pre-1 July 1983 amount.

For taxed super funds, the pre-1 July 1983 amount was calculated as at 30 June 2007 and was included as part of the tax-free component on that date. This is referred to as crystallisation, as the amount became fixed and formed part of the tax-free component.

For untaxed super funds, the crystallisation of the pre-1 July 1983 amount for the untaxed element in the fund is only calculated when a lump-sum benefit is withdrawn or rolled over into a taxed super fund.

If a client has pre-1983 service, they may be able to increase their tax-free component by making a non-concessional contribution to their CPF prior to taking their benefit. Naturally, the client would need to have savings available outside super to facilitate the contribution.

If a client has benefits in another super fund with an earlier start date than the CPF, consolidating these monies first would bring across the increased service period, further increasing the tax-free amount on crystallisation.

Example 1

Maddy has $500,000 in a CPF, which includes $100,000 of non-concessional contributions. Her Eligible Start Date (ESD) is 1 July 1973 and she rolls her benefit to a taxed fund at 1 July 2016. (Total pre-1983 days 3,651 from total of 15,706.)

The total tax payable on rollover would be calculated as follows:

- Total pre-83 service = 3,651 / 15,706 = 23.2 per cent.
- Therefore, the tax-free component is 23.2 per cent of $500,000 = $116,000 plus $100,000 (non-concessional) = $216,000.
- Tax on the remaining untaxed element of $284,000 at 15 per cent = $42,600

Now, let's assume she has available cash to make a non-concessional contribution of $300,000 to her CPF prior to crystallisation.

The tax payable on rollover would be calculated as follows:

- Total pre-83 service = 3,651 / 15,706 = 23.2 per cent.
- Therefore, the tax-free component is 23.2 per cent * $800,000 = $185,600 plus $400,000 (non-concessional) = $585,600.
- Tax on the remaining untaxed element of $214,400 at 15 per cent = $32,160.

The tax payable on rollover has reduced by $10,440 as a result of Maddy's non-concessional contribution.

Example 2: **Alex does not seek financial advice**

Alex, age 62, is retiring. He has super in two CPFs: an accumulation and defined benefit account.

The accumulation account has a balance of $400,000, an Eligible Start Date of 1 July 1988 and comprises 80 per cent untaxed monies and 20 per cent tax-free (from non-concessionals).

The defined benefit has a balance of $600,000, an Eligible Start Date of 1 July 1970 and comprises 50 per cent untaxed and 50 per cent tax-free monies (from non-concessionals).

He wants to use his entire super balance to commence an account based pension. He has $250,000 in personal cash.

At 1 July 2016, he rolls his accumulation CPF into a taxed super fund. Fifteen per cent rollover tax ($48,000) is deducted, reducing the benefit to $352,000.

He then consolidates his defined benefit fund into the same taxed fund. The pre-83 component is crystallised at this time.

- Pre 83 Service days (1/7/1970 – 30/6/83) = 4,747.
- Post 83 Service days (1/7/1983 – 1/7/2016) = 12,054.
- Total pre-83 service = 4,747 / 16,801 = 28.3 per cent.

Therefore, his tax-free component is 28.3 per cent of $600,000, which equals $169,800. Adding this to the $300,000 from non-concessionals brings his tax-free component to $469,800.

- Tax on the remaining untaxed element of $130,200 at 15 per cent = $19,530.
- Total tax on rollover = $48,000 (accumulation) plus $19,530 (defined benefit) = $67,530.
- Net benefit remaining = $932,470.

But if Alex sought financial advice

Alex is advised to make a non-concessional contribution of $250,000 from his available savings to his accumulation account and then consolidate these benefits with his defined benefit. There is no crystallisation, as the funds have moved from one untaxed fund to another. At 1 July 2016, he rolls over his total benefit of $1,250,000 into a taxed super fund. The pre-83 component is crystallised at this time.

Continues on page 38

The unique characteristics of CPFs open up a number of financial planning strategies and considerations when advising clients who are members of such schemes.

- Total pre-83 service = 4,747 / 16,081 = 28.3 per cent.
- Therefore, the tax-free component is 28.3 per cent of $1,250,000 = $353,750 plus $630,000 (from non-concessionals) = $983,750.
- Tax on untaxed element of $266,250 at 15 per cent = $39,938.
- Net benefit remaining = $1,210,063 (or $960,063 if $250,000 is withdrawn).

Alex's tax saving from making a non-concessional contribution and consolidating his CPFs prior to crystallisation is $67,530 - $39,938 = $27,592.

Minimising tax on withdrawal

Most clients in taxed super funds are able to withdraw their super benefits tax-free after age 60. However, those in CPFs will need to pay the 'deferred' tax on their untaxed monies at this time.

Provided the client has not exceeded their untaxed plan cap of $1.415 million (2016-17), tax will be levied on untaxed super benefits at:

- A maximum of 15 per cent plus Medicare of 2 per cent for those age 60 or more; and
- A maximum of 15 per cent plus Medicare of 2 per cent for persons between preservation age to 59 on the first $195,000, then 30 per cent plus Medicare up to the untaxed plan cap.

Whilst this tax cannot be avoided, a useful strategy to reduce the tax deducted is to firstly rollover their benefits to a taxed fund before withdrawing the monies. Whilst 15 per cent tax will be levied on rollover, this two step process eliminates Medicare being paid on the withdrawal.

Example

Cassian is age 60 and has $400,000 in a CPF (all untaxed), which he wants to withdraw and pay off his home loan now he has retired.

If he makes a lump sum withdrawal from the CPF, then tax of 17 per cent or $68,000 will be deducted, leaving a net benefit of $332,000.

Alternatively, he could rollover his benefits to a taxed super fund first and pay 15 per cent rollover tax ($60,000).The remaining funds of $340,000 could then be withdrawn tax-free.

Therefore, Cassian benefits from a tax saving of 2 per cent or $8,000.

Leaving the CPF open

With the state governments introducing new taxed accumulation schemes which are more aligned with current super legislation, many of the CPFs are closed to new members. Therefore, clients leaving their state government employer before retirement may wish to leave a minimum balance in their CPF. This provides the flexibility to:

- Return to the fund should they later become employed again by an eligible employer;
- Potentially make a large non-concessional contribution prior to retirement and crystallising their benefits; and
- Potentially make a large deductible contribution (if eligible) to offset a capital gain arising, for example, from sale of an investment property or share portfolio.

The drawbacks of CPFs

A CPF may not offer as much flexibility as taxed funds in the market.

Persons who are members of a CPF may not have the availability of choice of fund whilst with their employer, in respect of the contributions their employer makes on their behalf.

Some CPFs do not allow the member to add a binding death benefit nomination to the account. Instead, on death, super benefits will pass in accordance with the rules outlined in prescribed legislation (usually to a surviving spouse or the legal personal representative). This may not meet a member's objective regarding distribution of assets or provide certainty in estate planning.

Investment choice within CPFs may also be limited compared to larger retail and industry funds.

Division 293 tax

If a client is a 'high income earner' (i.e. with income above $300,000 per annum), they will be subject to the Division 293 tax on non-excess concessional or 'low rate' contributions regardless of whether these contributions are made to a taxed or untaxed superannuation fund.

This will bring the total tax on these contributions to 30 per cent, which is still preferable to a top marginal rate of 49 per cent (including Medicare and Budget levy) for personal income above $180,000 per annum.

Please note that different rules may apply to individuals classified as 'State Higher Level Office Holders', such as Commonwealth judges, whose employers make contributions to CPFs. They are generally exempt from Division 293 tax unless the contributions are part of a salary sacrifice arrangement.

Tips and traps

- Increasing the tax-free component by making additional non-concessional contributions may reduce any potential anti-detriment payment in the event of the client's death that could be paid with a benefit to a spouse or child.
- Any benefits rolled over to another super fund or taken as cash must be taken proportionately between the tax-free and taxable components that make up the total entitlement. A client cannot elect to only withdraw the tax-free benefits.
- Some CPFs have restrictions about contributions regarding whose contributions can be accepted and the types permissible. It is important to confirm this with the relevant fund before providing advice.

Please note that the 2016 Federal Budget proposed a number of changes to superannuation, including a new lifetime cap of non-concessional contributions of $500,000 and potentially extending a reduced concessional contribution cap of $25,000 per annum to members of untaxed funds from 1 July 2017. Should these proposals be legislated, they may have implications when providing advice for clients holding CPFs.

Brooke Logan, Paraplanner and Technical Specialist, UniSuper Management.

QUESTIONS

1. Elliot, age 61, accrues benefits in excess of his untaxed plan cap of $1.415 million. The benefits in excess of his cap on withdrawal will be taxed at:

a. 17 per cent.

b. 32 per cent.

c. 49 per cent.

d. None of the above.

2. Aleah, age 57, earns an annual salary of $200,000 (plus 9.5 per cent Super Guarantee) and has accrued untaxed benefits in her CPF of $1.3 million. In the 2016-17 financial year, she could potentially salary sacrifice how much before triggering an excess benefit?

a. $16,000.

b. $96,000.

c. $115,000.

d. None of the above.

3. Zander, age 47, earns $350,000 per annum. He salary sacrifices $50,000 per annum to his accumulation style CPF, in addition to employer contributions of $19,308 per annum. He will pay 'Division 293 tax' of 15 per cent on:

a. $69,308.

b. $35,000.

c. $30,000.

d. None of the above.

4. Why might a client rollover their untaxed super to a taxed fund prior to making a lump sum withdrawal?

a. You are not permitted to make lump sum withdrawals directly from a CPF.

b. This may reduce the tax deducted from the benefit.

c. This may reduce time and provide quicker access to funds.

d. None of the above.

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

Complaints and Discipline Report

01 July 2016 to 30 September 2016

The FPA is committed to informing members and the community of the trends and outcomes of complaints and disciplinary action in the financial planning profession. It is important for members and the community to be confident that the profession takes a strong position on the protection of the reputation of financial planners by responding to breaches of its professional expectations.

As well as communicating the activities of professional accountability, the FPA's goal is to assist members in appreciating the types of complaints received, to encourage members to consider their own practises, and to provide guidance for complaint protection.

COMPLAINTS & DISCIPLINARY REPORT

01 July 2016 to 30 September 2016

Complaints ongoing as at 1 July 2016	3
New complaints	13
Complaints closed	3
Complaints ongoing as at 30 September 2016	13
Members suspended	0
Members expelled (CRC)	0
Members terminated (Constitution) *Sarah Gardner	1
Other sanctions (CRC)	0
Referred to Professional Designations committee for sanction	0

Disciplinary Activity Summary

In the July to September quarter, the FPA received 13 new complaints, finalised three complaints and has 13 ongoing complaints. Of those ongoing complaints:

- The previously adjourned proceedings before a Conduct Review Commission (CRC) panel concluded in August and the FPA has made written submissions. It is anticipated that the member's submissions, and the FPA's reply, will be finalised early in October, before the panel makes a written determination (published on the FPA website) in respect of each breach before it that it is either proven or dismissed;
- Another CRC panel held proceedings over one day in September. The panel will similarly make a written determination; and
- Nine of the complaints received during this quarter relate to alleged academic misconduct.

The year in review

The Annual Report on Professional Standards (the Report) will be published later on in the year, expected to be available on the FPA website in November 2016. The Report has been published on an annual basis since 2010, and contains insights into the FPA's work and developments broadly across the Professional Regulatory Framework, as well as specifically within the FPA's professional membership, professional conduct and professional accountability programs.

Following is a high level snapshot of activities by the Professional Accountability team during the 2015/16 financial year:

- We received a total of 26 formal complaints, down slightly on the 30 last year.
- We finalised a total of 31 complaints, up slightly on the 29 from last year.
- As at 30 June 2016, we had three outstanding complaints, well down on the eight at the same time last year.
- Additionally, we received a total of seven FPA Confidential matters, down significantly on the 16 last year, and we finalised a total of 11 matters. As at 30 June 2016, we had only one outstanding matter, compared to five at the same time last year.
- We dealt with 62 instances of misuse or unauthorised use of either the FPA brand or CFP® designation. This is a decrease of almost 30 per cent from last year.
- We conducted a total of 24 Advice Reviews as part of the Cbus Referral Program.
- The CRC delivered a determination as a result of a disciplinary hearing into a particularly egregious matter. The member was expelled and ordered to pay the hearing costs after borrowing $990,000 from a client in highly questionable circumstances,

on non-commercial terms and was unable to repay the loan when due (fpa.com.au > professionalism> professional-accountability > recent outcomes > CRC 2015_1).
- The CRC directed the FPA to commence disciplinary proceedings against two members (both subject of panel hearing and awaiting written determination).
- We automatically terminated the membership of five FPA members by operation of the FPA constitution, compared to four last year. Of these five, one was banned by ASIC (of a total of 32 banned by ASIC), two were bankrupt, one was terminated by their licensee for a breach of the law, and one was found to have knowingly failed to provide material information on FPA application(s). A further two Associates had their status cancelled by the FPA after being banned by ASIC.

We further fostered the protection of the profession and the community, in responding to over 504 enquiries from members, consumers and other stakeholders in relation to professional standards related activity and guidance.

The Report itself will provide much more detail and context around this data and we encourage each member to read the Report when published.

Academic misconduct

With the increased emphasis on education, the FPA has continued to see growth in enrolments in the CFP® Certification Program, and an increase in the number of investigations conducted into suspected academic misconduct.

To demonstrate this, we investigated:

- three individuals in the 2014/15 financial year;
- 14 individuals in the 2015/16 financial year; and
- we are investigating nine individuals in the first quarter of the current financial year (not finalised).

All but two individuals investigated over this period have been/are being investigated for suspected:

- plagiarism involving another student – by copying from another student without that student's knowledge;
- collusion – where two or more students share answers or allow another student to copy from them (typical to these plagiarism and collusion cases is two or more students having identical text or unusual amounts of similar text in their assignments that is not from reference material); and
- plagiarism not involving another student - by copying a reference source (including course material) without proper referencing.

Of the matters investigated in the 2015/16 financial year:

- Two individuals were cleared of misconduct (copying of parts of their assignment had been by a student known to them but without their knowledge);
- one individual was referred for disciplinary proceedings (this matter is ongoing and a written determination will be published when finalised);
- one individual had their association with the FPA cancelled; and
- 10 individuals were found to have engaged in plagiarism or collusion and were referred to the Professional Designations committee, where they were each subjected to a range of sanctions including: exclusion from the program for a period of time; recorded fail for the particular subject; and reprimanded.

Following is a reminder of tips for students when completing studies with the FPA (or any provider):

1. Make sure you are familiar with the academic misconduct policy (don't just sign the declaration).

2. First and foremost, ensure all work you submit is your own (or referenced to the required standard where citing another source);

3. Study groups form an important part of distance education and are encouraged to facilitate discussion of the topics. However, you should never share answers you have prepared for an assignment with other members of a study group, nor should you copy another student's answer in part or in full.

4. Do not keep your assignment in a location where it can be accessed by others without your knowledge, either in hard (e.g. a printed copy) or soft copy (e.g. a shared drive, unsecured device or portable device) form.

Obtaining client personal information from external sources

The FPA was recently informed of an increase in detection of financial services personnel, including planners/advisers, contacting a superannuation fund and dishonestly purporting to be a particular client. The purpose of the call is to obtain personal information about the client and obviously occurs in order to streamline the obtaining of information ordinarily entitled to under an appropriate client authority and/or by having the client obtain the information directly.

Although there have not been any specific complaints to the FPA alleging this conduct by an FPA member or allied professionals, we thought this information provided an opportunity to remind FPA members and allied professionals of their professional (and potentially legal) obligations under the FPA Code to not engage in such activity.

FPA Code e-learning program

Members are encouraged to undertake the FPA's Code e-learning program on the FPA website, fpa.com.au/professionalism/. This interactive program will introduce you or refresh you on the FPA Code, its rationale and components. Completion of this program will also earn you 1.5 CPD hours (ethics).

Enquiries or dilemmas

The FPA Professional Accountability team always welcomes contact from member's who seek information, clarification or guidance on applying the FPA Code and other enforceable requirements of membership to practice. You may contact the Professional Accountability team directly by email at professional.standards@fpa.com.au or telephone on (02) 9220 4523 or (02) 9920 4520.

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* All data as of 31 August 2016.

2016-GL-4903