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Financial Planning

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Community investment

Michael Chalmers CFP®
and regional planning

THIS ISSUE

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DEFINED BENEFIT INCOME STREAMS / TRANSFER BALANCE CAP

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July 2017

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A milestone month

The start of the 2017/18 financial year also marks the start of the highly awaited Financial Adviser Standards and Ethics Authority (FASEA) and the next phase of implementation for the new professional and education standards framework.

As the new independent body gets underway, the FPA will be working closely with it to ensure the developed framework is a considered and fair outcome for the financial planning community.

You may have heard about the 'degree equivalent' points system that we have proposed. The points system takes into account individual units of study, and any qualifications, certification and designations you have achieved. Importantly, the points system we have put forward also recognises your CPD hours.

With so much support from the financial planning community, we are hopeful that FASEA will accept our proposal.

However, whatever the outcome, there is no getting around the fact that some financial planners will need to undertake further study in order to meet the new standards. We will, of course, be keeping you updated as the detail unfolds over the coming months, and propose good education options for members who have to do some additional study.

Pro Bono Partnership

Last month, we were delighted to announce a pilot pro bono financial planning referral service with Cancer Council Australia. This partnership will help cancer patients and their families deal with the financial burden and stress during an extremely difficult time.

We know there are many families around Australia currently going through periods of significant distress, and I ask that you consider offering your skills and experience to help them.

If you're unsure about what this might involve, I encourage you to read more about the program at fpa.com.au/probono and on page 6.

FPA Awards

July also marks the start of the 2017 FPA Awards program, an important initiative that recognises and celebrates the talent and passion within our profession.

Once again, we have six categories to recognise members in different capacities – as financial planners, as business owners, as paraplanners and as contributors to the local community.

Entries are now open and I strongly encourage you to consider entering this year. To read more about the awards from last year's winners, head to page 14.

FPA Congress

Registrations have already started pouring in for the 2017 FPA Professionals Congress in Hobart. We're busy working on a fantastic line up of speakers, and we'll be releasing information about these over the coming weeks.

If you haven't yet registered and booked your flights and accommodation, I recommend that you do so quickly to secure your first choice.

Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

We were delighted to announce a pilot pro bono financial planning referral service with Cancer Council Australia.

FPA goes pro bono with Cancer Council Australia

The FPA has launched a pilot Pro Bono Financial Planning Referral Service with Cancer Council Australia.

The national referral program will help families affected by cancer who are unable to afford the cost of financial advice, by connecting them with financial planners who can provide their services on a pro bono basis.

By facilitating the provision of these services, the program aims to contribute to the wellbeing of people affected by cancer by reducing the stress and financial burden placed on them.

Commenting on the program, FPA chief executive officer, Dante De Gori CFP® said in a report prepared for Cancer Council Australia, Access Economics estimated the average cost of a cancer diagnosis to be almost $50,000.

"Many people simply cannot afford to resolve the financial issues that need to be addressed during this stressful time. Financial planners can make a huge difference to families in need of assistance. To continue the good work Cancer Council Australia is doing, we need more financial planners to become involved," De Gori said.

"We are calling on FPA members to come forward and generously donate their time to assist cancer patients and their families with a wide range of financial issues on a pro bono basis."

These issues may include:

- Accessing Centrelink benefits;
- Applying for early access to super and attached insurance benefits;
- Developing a strategy for investing lump sum insurance payouts;
- Developing a budget and ensuring regular cash-flow; and
- Planning for the financial future of their family.

Cancer Council Australia

"The Pro Bono Financial Planning Referral Service is open to CFP® Professional and Financial Planner AFP® membership categories. The program provides our members with an opportunity to use their professional skills to make a difference and strengthen their relationship with the local community," De Gori said.

For more information on the pilot program or to register your involvement, go to fpa.com.au/probono

Bronnie Abraham takes top award

Dolfinwise financial planner, Bronnie Abraham AFP®, has been named the Gwen Fletcher Memorial Award winner for being the highest achieving student in Semester 1 of the CFP® Certification Unit. This award is presented each semester.

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

Bronnie has been working at Dolfinwise for seven years in various roles, including Client Services Manager, Senior Paraplanner and Practice Manager, which has provided her with a broad understanding of clients' needs.

Bronnie has been a licensed financial planner since 2013, specialising in providing advice in personal insurance, superannuation, wealth creation and estate planning. Whilst completing her Bachelor of Commerce degree at Griffith University, Bronnie was awarded an FPA bursary for her outstanding achievements as a student.

The Gwen Fletcher Memorial Award was established in 2014 in memory of Gwen Fletcher AM. The award is presented each semester to the highest achieving student in the CFP Certification Unit.

Bronnie Abraham AFP®

Teens struggle with money matters

Around one in four teenagers are unable to make even simple decisions on everyday spending, while only one in 10 can understand complex issues, such as income tax. This was one of the common findings coming from 15 countries, including Australia, that took part in the OECD Programme for International Student Assessment (PISA) test of financial literacy.

Approximately, 48,000 15-year-olds were tested, which evaluated the knowledge and skills of teenagers around money matters and personal finance.

"Young people today face more challenging financial choices and more uncertain economic and job prospects given rapid socio-economic transformation, digitalisation and technological change," said OECD Secretary-General, Angel Gurría.

"However, they often lack the education, training and tools to make informed decisions on matters affecting their financial well-being. This makes it even more important that we step up our global efforts to help improve the essential life skill of financial literacy."

Of the 15 countries participating in the test, Australia ranked 6th in teenage financial literacy.

Students who do well in financial literacy are also likely to perform well in the PISA reading and mathematics assessment, and students who have weak financial literacy skills are likely to do poorly in the other core PISA subjects.

The gender gap in financial literacy is much smaller than in reading or mathematics. Only in Italy do boys perform better than girls, while girls do better than boys in Australia, Lithuania, the Slovak Republic and Spain.

On average, 64 per cent of students participating in the study earn money from some formal or informal activity, such as working outside school hours or doing occasional informal jobs. About 59 per cent of students receive money from an allowance or pocket money.

The survey also revealed that, on average, 56 per cent of students hold a bank account, but almost two out of three students do not have the skills to manage an account and cannot interpret a bank statement.

Acknowledging distinguished service

The FPA congratulates the following FPA members who were recently awarded the FPA's Distinguished Service Award by the FPA Board.

The award is presented to individuals for their exceptional contribution to the work of the FPA and to the common good of the financial planning profession through voluntary service to Chapters, Committees and Taskforces.

Petra Churcher AFP®
Chapter: South Australia

Bob Currie CFP®
Chapter: Toowoomba/Darling Downs

Anne Graham CFP®
Chapter: Melbourne

Brian Quarrell CFP®
Chapter: Geelong

James Brescia CFP®
Chapter: Sydney

Jayson Forrest
Chapter: Sydney

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

VIC

Jonathan Vickers-Willis CFP®
Escala Partners

Natalie Tyrer CFP®
Shadforth Financial Group

The practice of the future

Q: What do you believe will be the main characteristics of leading advisory firms of the future?

Adele Martin CFP®
Managing Director and Senior Wealth Adviser, Firefly Wealth
Licensee: RI Advice Group

I think as advice costs continue to rise, advice will go two ways: high end, DIY or scaled in a one-to-many model.

It's sort of like how fitness is – you can just have the gym membership where you are on your own, group classes which help to keep the cost down, or if you need extra help, there is personal training.

I think investment advice will become completely computerised and won't be a way advisers add value.

If we are talking well into the future, I think tax and financial planning will merge. Essentially, one office and one person for both. Clients are time poor and are having more pressure placed on their time, so they just what one place to help get them organised.

This is already happening. Administrative jobs will be automated through technology or placed offshore as a way to stop the rising costs of advice.

You can already get a chartered accountant based in the Phillipines for $12 per hour or an SOA done in Pakistan for under $200. Whether you agree with this or not, it's happening and I think it's going to be a way to keep advice costs down.

I also think virtual financial planning will become the norm and advisers won't have to be tied to just helping clients in a particular location.

Who knows, maybe in the not too distant future, we will be holding our meetings via virtual reality or I'll be hologrammed into their living room.

Gil Gordon CFP® AEPS®
Proprietor and Senior Adviser, RI Lower Hunter
Licensee: RI Advice Group

As the growth in fintech continues and the traditional value propositions of financial advisers are commoditised and taken to the mass consumer via 'robo advice' tools, new business models will evolve around objective-based advice.

This is not simply goal setting, but rather a mandate to the adviser to 'keep a lot of balls in the air' while still managing their client's money.

For the traditional retiree, paying fees to manage a diversified portfolio within the bands prescribed by the client risk profile, is about as exciting as watching paint dry.

What they will remember and be grateful for is the advice that allowed them to take holidays, renovate their house, help their children and retire earlier, while still providing for aged care and not running out of money before they die.

The advice firm of the future will use engagement tools that frame this conversation and illustrate how the adviser's toolkit will assist new and existing clients achieve their objectives.

They will track and report on objectives set and achieved, as well as those still unfulfilled.

This will obviously include portfolio management but also cashflow tracking, estate planning and aged care, just to name a few.

Patrick Canion CFP®

Chief executive officer, ipac Western Australia
Licensee: Charter Financial Planning

The leading advisory firms of the future will do something exceptionally revolutionary – they will spend all their time with their clients.

Most financial planners right now run two businesses in one – an advice business and a compliance/paperwork processing business. Advisers try and see more clients, but that only results in an exponential increase in back-office paperwork.

I believe the business of the future will be one where all staff – whether advisers or para-advisers – spend 95 per cent of their time in front of clients. This is what the market wants, and indeed, is really the only thing they are willing to pay for. This is what advisers want, too.

The regulators, however, want you to do something entirely different. Until we are recognised as a proper profession – something that in my view will take at least a decade to manifest – they want you to not only fulfil the spirit but more importantly, the letter of the law.

They want those Financial Services and Credit Guides and Fee Disclosure Statements and Records of Advice churned out. They want you to consider and document every possible scenario that is reasonable.

Most of us didn't get into this profession to fill in forms – we joined up to make a positive change in our client's lives. But you can't ignore the law, nor have a business built on quicksand.

How do you reconcile these competing demands? Simple, by finding quality specialist suppliers to outsource all back-office processing, so you can focus on your clients.

Rebecca Fergusson CFP®

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

Going forward, the main characteristics of the leading advisory firms are likely to be:

1. Firms that are prepared to adapt and accept change. The financial services landscape is constantly evolving and advice businesses need to adjust to this changing environment to remain the key influencer in their clients' lives. Some examples of this include using Google alerts, ensuring your website is mobile friendly, and focusing on the online footprint of the business to ensure this delivers a consistent message.

2. Firms that outsource non-core functions of the business to enable the advisers and staff to focus on income generating activities and building the business. For example, outsourcing paraplanning or bringing in expertise when needed on an ad hoc basis for specific roles, such as business coaching. This will enable businesses to dial up or down these services according to demand, thereby reducing their ongoing fixed costs.

3. Firms that have established systems and processes to ensure that the business delivers a consistent, efficient and compliant outcome to clients.

4. Firms that focus on continual improvement and professional development. This may involve attending conferences, peer-to-peer brainstorming sessions or listening to podcasts.

5. Firms that are flexible in how they manage and remunerate their staff, to allow work to be integrated seamlessly into their lives. For example, an employee may prefer to start at 6am and work until 2pm, instead of working the hours of a traditional day.

6. Firms keeping close to their clients and being aware of public sentiment. This will ensure they can adjust their service offering to remain relevant – the trend is your friend.

In my view, the leading advice businesses of the future will offer personal, professional, unaligned, fee-for-service financial advice that is tailored to the needs of each client.

Adopting a one-size-fits-all approach will not be appropriate for those wishing to be seen as leaders in the profession.

Wayne Leggett CFP®

Principal, Paramount Financial Solutions
Licensee: Fortnum Financial Advisers

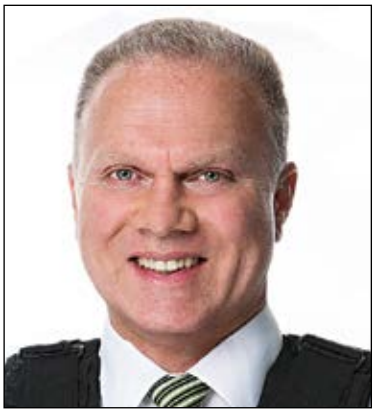
There are four key features that leading advisory firms of today contain that are likely to be essential requirements for any advice firm if they wish to survive in the market of the future.

1. Multi-disciplined
Either through internal resources, or well-defined relationships with other professionals, these firms will have the capacity to initiate dialogue and assist clients in facilitation of any of their requirements relating to their financial affairs.

2. No recommendation bias
For a client to be confident that you are putting their interests ahead of your interests, your charging structure will need to be a pure 'fee-for-advice' model, wherein the client pays you for your advice, irrespective of whether or not they choose to act on it. There cannot be a nexus between practice revenue and financial transactions, especially if the quantum of the transaction is a factor in the revenue generated.

3. Have a clearly defined 'ideal client'
Be this by virtue of profession, life stage or relationship style, successful firms know exactly what type of clients they are looking for and will focus on those. This does not mean there will only be a single category of target client, but despite how many you settle on, they will need to be clearly defined and the focus of both your marketing programs and your service offer.

4. Provide financial 'counsel'
With the proliferation of so-called 'robo-advice', clients effectively have access to all the information we do. Thus, our role will be less about providing them with information and more about facilitating their decision-making.



Daryl La'Brooy CFP®

Financial Adviser, Hillross Financial Services
Licensee: Hillross Financial Services

Knowing your clients extremely well is going to be paramount. If a firm knows its client well, then it can advise them well and meet their needs.

Service delivery also has to be very good. Client expectations have to be met. This is where great staff come in and team members who are fantastic at serving clients well.

Going above and beyond what the average firms do is also important. It means if advice and services can't be provided in-house, then having trusted third parties that can be brought in to assist clients' wider needs, are critical if you want to stand out from the crowd.

A learning culture in the firm is also another important characteristic to have. A learning culture is one where the team always looks to improve skills and knowledge with a view to ensuring clients are better advised and served.

Using technology to improve efficiency and using IT to provide better client outcomes is also vital.

Some firms may also choose to become specialists in a certain area and by doing so, they gain an edge over practices that work as generalists.

Engaging with clients better through the use of soft skills is another key to success. Capturing what is of value to the client and then delivering that value at the outset, will help a firm prosper overtime.

Finally, proper pricing for the work being undertaken is fundamental to success.

Getting paid adequately for great advice and service is going to ensure the practice can continue to hire, keep and train good people on an ongoing basis.

FPA AWARDS
2017

Celebrating talent

It's time to recognise excellence within the profession, with entries now open for the **2017 FPA Awards.**

The search for Australia's leading financial planners, paraplanners and students of financial planning is now underway, with entries now open for the prestigious 2017 FPA Awards.

The awards recognise excellence in their respective categories, as well as acknowledging FPA members who have gone above and beyond for their local community.

The six categories open for submissions are:

- FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award
- FPA Financial Planner AFP® of the Year Award
- FPA Professional Practice of the Year Award
- FPA Paraplanner of the Year Award
- Future2 Community Service Award
- FPA University Student of the Year Award

Winning an FPA Award is not only prestigious but brings a range of benefits to the award recipient. These benefits are highlighted in the chart below.

The deadline for entries closes Thursday 31 August, with the winning award recipients announced at the FPA Professionals Congress in Hobart in November.

Entries this year are online. To find out more, head to **fpa.com.au/awards**

FPA Award categories

FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award - This category recognises CFP® professionals who provide superior outcomes for clients, while aligning their professional expertise to the FPA's Code of Professional Practice and Code of Ethics

FPA Financial Planner AFP® of the Year Award - This category recognises Financial Planner AFP® members who have delivered best practice advice that have led to outstanding client outcomes.

FPA Professional Practice of the Year Award - This award recognises the leading practice within the FPA Professional Practice Program that demonstrates best practice across a range of assessed criteria.

FPA Paraplanner of the Year Award - This category recognises paraplanner professionals who have demonstrated excellence in paraplanning.

Future2 Community Service Award - This category recognises CFP® professionals and Financial Planner AFP® members who have supported their local community through pro bono and volunteer work, assisting disadvantaged young Australians for a brighter future.

FPA University Student of the Year Award - This award recognises students who are excelling in the finance field. Students who have demonstrated exceptional performance will be put forward by their respective accredited educational institution, and the FPA will invite these candidates to apply for this award.

Benefits of Winning

	FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award	FPA Financial Planner AFP® of the Year Award	FPA Paraplanner of the Year Award	FPA Professional Practice of the Year Award	Future2 Community Service Award	FPA University Student of the Year Award
$5,000 towards professional development or a professional event	✔	✔		✔	✔	
Personalised email signature	✔	✔	✔	✔	✔	✔
Media opportunities	✔	✔	✔	✔	✔	✔
Complimentary 2018 FPA Professionals Congress registration	✔	✔	✔	✔	✔	✔
Complimentary 2018/19 FPA Allied Professional Membership						✔
Complimentary first semester entry into the CFP® Certification Program			✔			✔
Complimentary 2018/19 FPA Professional Practice renewal				✔		

Tony Sandercock CFP®

Practice: wetalkmoney
Award: FPA CERTIFIED FINANCIAL PLANNER® Professional of the Year Award

Cody Harmon AFP®

Practice: Hard Line Wealth
Award: Financial Planner AFP® of the Year Award

Patrick Canion CFP®

Practice: ipac Western Australia
Award: FPA Professional Practice of the Year Award

"It's been gratifying to know that all the work over the years actually stands up to scrutiny."

– Patrick Canion CFP®

Winning ways

Financial Planning asked three of last year's winners, what winning an FPA Award means to them and their business.

Q: Why did you decide to enter the 2017 FPA Awards?

TS: First and foremost, it's the most prestigious individual honour for a CFP® professional, so it's worth winning. Secondly, I wanted to put myself and the practice under the scrutiny of my peers.

CH: There are big things I want to achieve as a financial planner and up until last July, the timing wasn't right. Focusing on client acquisition and improvement in other areas was the priority. So, because I'm competitive, by entering the 2016 FPA Awards, I wanted to see how my advice process stacked up against others.

PC: We've devoted years to creating a financial planning business that focused on providing a consistent quality advice experience, for all clients, over the entire lifetime of their engagement with us. I wanted to be a part of the first award that recognised the challenge in achieving this.

Q: How have you made the most of winning your award?

TS: The award has been a big boost to my brand. I've worked even harder at projecting that brand into key demographics.

CH: I have used the prize money for personal development by hiring a business coach, and have also booked to see Tony Robbins at 'Unleash the Power Within' in Sydney this year. Without the prize money, I probably would not have had the opportunity to do these things as, I recently bought a home. I am forever thankful for the opportunity this will give me to learn new skills, so I can help more clients achieve their goals.

PC: We've proudly advised our clients and used it in our marketing. It's an independent endorsement of our collective desire to put our clients first at all times, in a sustainable way.

Q: How has winning the award made a difference to your business?

TS: There is no doubt that I have been presented with opportunities that would not have been forthcoming, if it wasn't for winning this award. These opportunities not only included media exposure, but the recognition of winning this award has provided me with opportunities to assist in the wider community. The number and quality of referrals I receive via website, social channels and centres of influence have also increased measurably.

CH: It has greatly assisted my capability to network. Melbourne has a lot of financial planners, so it's competitive. You need to stand out in some way and be a 'purple cow'. Winning this award has allowed me to do that. This recognition from the FPA has also re-enforced and strengthened the bonds between me and my clients, and their confidence in me to deliver sound strategic advice.

PC: It's been gratifying to know that all the work over the years actually stands up to scrutiny. Financial planning can be a very lonely business at times. You try your hardest but often you don't know if what you're doing is good or how you stand up to other practices. This award not only proves that, it encourages us to keep on improving.

Q: What advice do you have for someone thinking of entering the awards?

TS: Just do it. Everyone's a winner. The nomination and application process asks good questions about the service you provide, and how you deliver and communicate that. This whole process of self-examination is valuable. Good luck!

CH: Do it. It's good to benchmark yourself and it's a healthy exercise. The process will re-enforce the knowledge you already have about your advice process.

PC: Do it! Just the assessment process alone will improve your business. But be warned – the seeds of our victory last year were planted over a decade ago, so don't be discouraged if you don't enjoy immediate success.

Community investment

Michael Chalmers CFP® made the move to a regional community 13 years ago and while that came with its own set of challenges, it's a decision he does not regret. Jayson Forrest reports.

Michael Chalmers has always been a 'country-boy' at heart. It's a claim he wears with pride.

So, it was a naturally easy decision for him at age 25, armed with his new CFP® designation and appointed NAB's youngest ever senior financial planning manager, to move to the Goulburn Valley city of Shepparton. He still reckons it's the best decision he has ever made.

Fast-forward 13 years, and Michael is the principal planner of Chalmers Private Wealth, a small dealer-aligned planning practice he established in September 2010.

But like any small business, working in a rural community doesn't come without its unique set of challenges. That's why Michael continues to work hard to try and keep things simple within his practice.

"As an adviser, I'm only really comfortable taking on clients who understand our advice model," he says. "I'm not comfortable having clients who put their complete trust in us without understanding what it is we do."

So, the approach Chalmers Private Wealth takes with all its clients is to help them better understand their finances and the financial options available to them, while clearly showing them how their decisions will ultimately shape their own financial future.

"By educating and empowering our clients, it enables us to put the onus back on the client for their own financial decisions. That means we take a lot more time taking a client on, making sure they understand all the steps in the process and for us, that has always paid dividends in the long run," Michael says.

It's this approach to client on-boarding and engagement that is working for the business, with no client complaints to date and a steady volume of client referrals. And it's something Michael attributes to belonging to a strong regional community.

"When you work in a regional town, it comes across fairly quickly with the locals if you've got their best interests at heart. Regional people can genuinely sense that pretty quickly. And if you're a good person, with good intentions, then they want you to succeed."

Challenges

However, that doesn't mean running a business out of a regional centre doesn't come without it's challenges.

"Definitely the most challenging aspect for me working in Shepparton is capacity constraints," Michael says. "As the business grew, it did become difficult for a while for me to deal with all the referrals, while making sure I was looking after my exisiting clients and meeting all of their needs. There's only so many hours in the day, right?"

Capacity constraints also meant Michael struggled to simply find the time to work on the business, not in it - a common challenge for sole practitioners.

He concedes he was probably "border line" at the time of having to shut the doors to new clients, when he finally took the plunge and brought on another planner in July 2016 – his business partner Oliver Ladd – to help with the growth of the business.

"Oliver is currently studying the CFP Certification Unit, which was an important factor for me in being comfortable with him joining the business," Michael says. "In fact, bringing on Oliver has made a huge difference to the business, because for a number of years, the biggest issue for me working in a regional centre was where to find another planner to help me. It's an issue I think most regional practices struggle with and something most city-based practices take for granted."

Indeed, finding the right staff to work in a country practice can take time, with there being a smaller pool of talent from which to draw upon. But it's not an issue for Chalmers Private Wealth, with Michael saying he is fortunate to have all members of his staff having relevant education qualifications, which is an important consideration for the business.

"Jacky, our paraplanner, is tertiary qualified in economics and finance, and she completed DFP 1-8 a number of years ago," he says. "And our client services manager, Kelly, has a diploma in accounting, while Lauren, our administrative assistant, is currently studying an accounting degree with a view to progressing into the CFP Certification Program."

Another challenge Michael identifies is the conservative nature of regional folk, which has made it particularly difficult for him to change the community's perception of financial planners in the wake of negative media coverage of the profession, and particularly with those who have never dealt with a planner before. But it's a battle he is winning.

Interestingly, Michael says customer loyalty is also a challenge for the practice.

Continues on page 18

Practitioner Profile

Name: Michael Chalmers CFP®

Age: 38

Education qualifications: B.Bus.FP, DipFP

Position: Principal Planner

Practice: Chalmers Private Wealth

CFP designation: 2004

Years as a financial planner: 17 years

Professional Practice Profile

Practice: Chalmers Private Wealth

Established: September 2010

Licensee: Garvan Financial Planning

No. of practitioners: 2

No. of CFP® practitioners: 1

Professional Practice since: April 2012

The Chalmers Private Wealth team: Being part of a regional community means being professionally and socially invested in that community.

"Customer loyalty can be a real challenge in a regional community," he says. "Loyalty is great but when you are dealing with a new client and you're pointing out that another professional they have dealt with, be it a solicitor or an accountant or whoever, has made a mistake or has failed to highlight an issue to them, then you need to be very careful in how you present that to them.

"That's because in a town the size of Shepparton, everybody knows everyone, or at worst, there's one to two degrees of separation. So, when highlighting the errors of another professional, you need to be very careful how you go about doing this, because it's a small town and small town people talk – there's no doubt about that."

Community

While working in a regional town does have its own set of unique challenges, for the 38-year-old, Michael draws strength from belonging to a tight knit community. For him, being part of his local community is not only essential but goes beyond being a good corporate citizen; it's being part of the lifeblood that sustains that community.

"I don't think it matters how you're involved in the community. But in a regional town, people do talk. So, if you're seen as just being for yourself, then that gets around.

"However, if you're seen as being part of the community, whether you're on the school council, or part of the volunteer bushfire brigade, or the local table tennis club – whatever it is, as long as you are involved, people see you as being invested in their community.

"Being involved in your local community certainly provides small town people with confidence and trust in you, because you're invested in the community, you're one of them and not a blow-in from the city."

Michael is happy to walk the talk. He is heavily invested in the Shepparton community, coaching his son's school soccer team and as a participant in this year's Oxfam 100km walk for charity. He is also the current president of the Goulburn Valley Obstacle Racers – Dirty Fighters (obstacle racing and training), and a past president of the Shepparton Table Tennis Association.

And if that's not enough, Michael was 'Mr May' in a local fundraiser calendar for leukaemia, where he and a couple of his clients posed for a worthy cause. Now, that's community spirit!

"But it doesn't end there," he says. "It's just as important to have staff who are also emotionally and actively engaged in the community, as it allows clients to more easily feel a real connection to the business."

Professional Practice

Chalmers Private Wealth became an FPA Professional Practice in April 2012, making it the first FPA Professional Practice operating in the Goulburn Valley.

"For me, it was about bringing a bit of prestige to the practice and to differentiate our business from the other planning practices in the area," he says.

But for Michael, being a Professional Practice is more than just third party validation of service quality and planner experience. The brand is his commitment to the profession's highest professional and ethical standards, which has brought recognition from aligned professionals, including accountants, that the practice works with.

"I have one specific accountant in town who refers almost all her clients to us, because she knows we will look after them and subsequently, we make her look good in the eyes of her clients. So, working collaboratively with other professionals, certainly helps."

Chalmers Private Wealth is also part of the Cbus referral program, which has been another source of growth for the business.

"Those clients who are coming to us from Cbus haven't been referred by a friend, family member or trusted adviser. They're coming through from their industry super fund. So, for us being an FPA Professional Practice, actually makes a difference for them."

And as a benefit of being an FPA Professional Practice, Michael has used his free Business HealthCheck, which he found to be "eye-opening".

"We did it for the first time last year. Doing the Business HealthCheck was an eye-opener for me in some of the key financial areas, which were generally very positive results. The results reinforced how well we are going as a business, which was very reassuring for our practice."

And what about areas for improvement?

"There were some business deficiencies highlighted in the report, such as succession planning, our business plan and position descriptions for the staff. I knew these were all issues for the business but it really took this external report to remind me of the importance to address them, which I have done," Michael says.

"For us, the report has been a good measuring tool that has helped me to refocus on those areas where we need to improve, which is absolutely important as we continue to grow."

Professional Practice criteria

In order for a financial planning practice to be recognised as an FPA Professional Practice, it must first meet for four criteria. These are:

1. A financial planning practice must have at least 75 per cent of practitioners registered as FPA members.
2. At least 50 per cent of the practice's planners are either a CERTIFIED FINANCIAL PLANNER® professional or are in the process of achieving the CFP designation (within three years).
3. The practice must be prepared to uphold the FPA's Code of Professional Practice.
4. The practice agrees to conduct a three yearly review to confirm adherence to the licence criteria described above.

"...as long as you are involved, people see you as being invested in their community."

Estate planning services: The ongoing value proposition

In the third of his series of estate planning articles, Gil Gordon CFP® examines the challenges families face when tragedy strikes, and the role planners can play in helping their clients through this emotionally difficult time.

In my last article in this series (*Financial Planning* May issue), I introduced the notion of a client information vault that is updated annually with clients, thereby introducing the notion of estate planning as an ongoing service to clients.

This article will focus on the reality of how well a client's family can cope when tragedy strikes, as well as introducing two new engagement ideas to share with clients. The estate planning adviser will be proactive and build an ongoing client value proposition based around preparing and maintaining the 'Information That Matters' and a 'Crisis Management Plan' for clients.

A very bad experience

Studies[1] have shown that the loss of a loved one can be the single most traumatic event in the survivor's life. Further, there has been shown to be an increase in incidents of major depressive episodes, panic disorders and post-traumatic stress disorder (PTSD). Most tellingly is the increased confusion and loss of higher order reasoning function associated with these events.

In short, when they lose a loved one, people are confused and commonly far less capable of making good decisions. Yet at this exact moment, the surviving partner or children are normally called upon to take charge of events and understand concepts that would be challenging for them at their very best.

In my experience, most clients are highly aware of what it feels like to experience the loss of a loved one and are genuinely worried about the burden associated with this event. The financial planner who can show how they are prepared to guide the family through this period, has a very powerful value proposition indeed, and can permanently transform their client relationship from product adviser to trusted adviser.

An ongoing value proposition

I have already spoken of a revised definition of estate planning, namely: *The right information, the right guidance and the right money to the right people at the right time.*

The ongoing opportunity becomes clear when we realise that modern estate planning has three elements:

1. The **legal instruments** – wills, PoAs, superannuation nominations and so forth;

2. The **information that matters** that is required for someone to assume control of the estate; and

3. A **crisis management plan** for the family to follow once crisis has struck.

Our profession is used to being held to account for the quality of the advice we provide to clients. We educate them about pitfalls, obligations and risks, and understand the value of advice that guides clients through these difficulties.

In the case study example (p21), Myra was simply unaware of her obligations as executor. The solicitor could argue that he/she was not asked to provide this type of advice to the estate's executor but regardless, Myra is still left out of pocket and extremely upset by the lack of support.

She would also be acutely aware of not wanting to be a burden on her own children in a similar situation and herein lies an advice opportunity.

Case study: *An executor sued*

John lived in Moree. A divorced ex-shearer and farm hand, he had two sons whom he hadn't seen in several years. He spent most of his days in the local pub, where he worked part-time cleaning up. John's only sister, Myra, lived in Western Australia and while they spoke once or twice a year, they were not particularly close.

Two weeks after his 67th birthday, John died of lung cancer relatively quickly. Myra was not able to be at his bedside for his passing and John's sons arranged the funeral.

Myra received a letter from a Moree solicitor four weeks later, informing her (to her surprise) that she was the executor of John's estate. The letter informed her that she should contact the children who were the named beneficiaries and begin the process of identifying and realising the assets of John's estate.

Myra had no idea where to start and was not able to get away from work for a couple of weeks.

She eventually rang John's sons, flew to Moree and began the process of collecting paperwork, superannuation information and bills. Ultimately, this process took around four and half months, most of which happened from Western Australia. In that time a local grass fire spread to the house and burned it to the ground.

Dismayed, Myra sorted through John's paperwork to find that the house insurance had lapsed two weeks after his death.

Myra contacted the insurance company to be told that due to non-payment of the premium, the house had been uninsured for more than 90 days, so the policy had therefore lapsed and they would not pay the claim. The house had been uninhabited for more than 90 days and under the terms of the policy, the insurer would not have paid the claim, even if the premium was paid.

Myra spoke to the solicitor to discover that as executor, she was legally obliged to properly protect the assets of the estate (it is widely accepted that this means properly insuring estate property, such as houses and cars). Failing to have in place the appropriate insurance meant that she could be held legally liable for the value of the house.

Upon hearing of the fire, John's two children sought legal advice and took action against Myra for her "... failure to properly execute her duties as executor of the estate of the late John XXXX". Myra was unable to use the other assets of the estate to settle this lawsuit, as they 'belonged' to the beneficiaries, not her.

As is often the case, Myra settled the matter out of court and had to borrow more than $75,000 against her own house (and contribute $25,000 from her savings) to pay her nephews' and her own legal bills.

When you examine the obligations that fall on someone who acts with a Power of Attorney or in the role of executor, there are many such risks and opportunities to render support. However, there is a major error in assuming that clients will not value that advice until such time as the trigger event is upon them.

How to build a Crisis Management Plan

Our practice produces, via the EPFL system, a document called the Crisis Management Plan, which addresses the following questions:

- What documents do I need to find?
- Who do I need to call?
- What do I need to ask them?
- What's important?
- What can wait?

Typically, there are four 'estate events'. These are:

1. Temporary disability;
2. Permanent disability;
3. Terminal illness; and
4. Death.

We therefore detail what documents are required, should one or more estate events befall the family (Table 1).

We recommend that advisers not only list these documents, but also provide a vault service to their clients and store certified copies of these important documents. Once clients become used to the service provided, they will come to rely upon it. I have been asked on many occasions by active clients to provide copies of passports or title deeds. They can always log into our vault software to access the documents but seem to prefer calling or emailing us directly.

The financial planner who can show how they are prepared to guide the family through this period, has a very powerful value proposition indeed, and can permanently transform their client relationship from product adviser to trusted adviser.

Continues on page 22

Table 1: Estate events

Event	Documentation Required
Terminal illness	Certified copy of: • Power of Attorney (POA) • POA's driver licence • POA's birth certificate or passport • Disabled person's driver licence • Disabled person's birth certificate or passport
Death	Certified copy of: • Will • Death certificate • Executor's driver licence • Executor's birth certificate or passport • Deceased driver licence • Deceased birth certificate or passport • Domestic partner's driver licence • Domestic partner's birth certificate or passport • Marriage certificate • Driver licence and passport or birth certificate of any beneficiaries

Table 2: Assets

1. 2. Assets

1. 2. 1. Australian Superannuation Funds

Adviser: Chris Neal - RI Lower Hunter - 02 4933 0100
chris.neal@rilowerhunter.com.au

Meeting date: ____/ ____/ ____ Meeting time: _____ Attendees: _____

Note: Short term urgency questions should be resolved as a high priority. Medium term items can wait a few weeks, long term items can wait until you are ready.

Question	Urgency	Answer	Action & Due Date	Assign to
Does the superannuation fund hold any Income Protection Insurance?	Short Term Medium Term			
Does the superannuation fund hold any Total & Permanent Disability Insurance?	Short Term Medium Term			
If an account based pension is being paid and the member dies: • How long will the pension/annuity continue to pay to a bank account? • Will a pension/annuity or lump be payable to the family or domestic partner when the fund is advised of the member's death? If so what pension/annuity is payable? • What is the best option for the family to take – pension or lump sum?	Short Term Medium Term			
Can the family expect to receive an anti-detriment payment with a lump sum payment from the deceased's superannuation/pension? If so, what do we need to do?	Short Term			
Does the superannuation fund hold any Life Insurance?	Short Term			
To minimise tax, should the superannuation fund be cashed out before death?	Short Term			
What death nominations exist on the superannuation fund?	Short Term			

Secondly, we need to provide the clients with a prioritised set of questions to raise with the relevant advisers (Table 2).

As an example, the question – To *minimise tax, should the superannuation fund be cashed out before death?* – has no correct answer. If dad is still married, the benefit typically will be paid to his spouse tax-free, but from 1 July, with the removal of anti detriment benefits, adult children will benefit greatly from asking this question very early on in the piece if their dad is unmarried.

In its simplest form, this is a simple checklist of issues but it also acts as a framework to guide an executor through one of the most intellectually difficult periods of their life. In the event of an estate dispute, this document also acts as proof the executor followed a rigorous and thorough process.

As planners, the technical skills we bring are assumed, but it's been my experience that clients take immense comfort in knowing that we are prepared for the emotional journey that our clients will be taking.

The Crisis Management Plan has prioritised question sets for all the different 'Estate Elements' present in our client's world.

Taking Action: Please email us via the estateplanningforlife.com.au website and ask for an extract of a sample Crisis Management Plan.

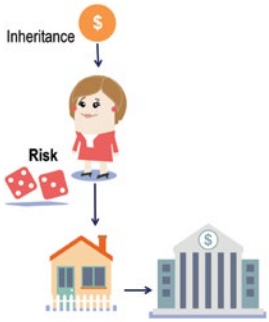
More engagement ideas: Two problems and more solutions

In the last article I wrote for *Financial Planning* (May issue), I provided two scenarios that we use in our practice to illustrate the potential benefits of testamentary trusts. Here are two more.

1. Asset protection

In many cases, if a beneficiary inherits money, they would like to use the funds to reduce or eliminate their mortgage. However, if those beneficiaries are subject to business or other financial risk, the act of repaying debt may place their inheritance at genuine risk. So, rather than passing funds directly to the children, they could be passed in trust form, which can act as a bank by taking a mortgage over the relevant property. This is known as a debt shield.

Family home unprotected



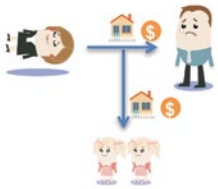
Protected by loan to Trust

2. Spouse protection

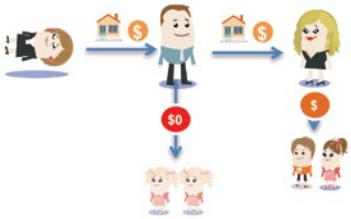
Another common issue raised in our practice is the 'blended family', wherein the client wants to provide their spouse with a roof over their head but still pass their 'share' of the house and the money to the children of their first marriage.

The following graphics illustrate the problem and a possible solution.

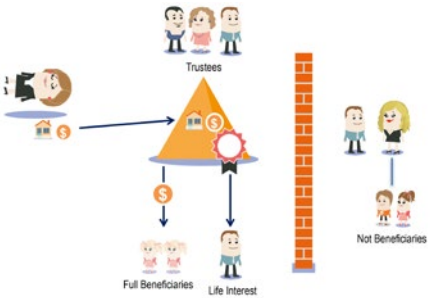
What I want to happen



What worries me



A protective trust



The majority of couples purchase property as Joint Tenants and this makes perfect sense, as the property passes quickly to the surviving spouse outside of the estate. However, the property then becomes exposed to the risk of the surviving spouse re-partnering and getting divorced. Severing the Joint Tenancy will automatically create a Tenants in Common ownership[2], thereby making that percentage ownership an asset of the estate controlled by the will.

The will can then grant the surviving spouse a Life Interest, providing a place to live but holding the ownership of the property at a distance from any divorce risk. This strategy can be executed in a variety of ways, depending on the age of the children and family involved.

But I don't have enough money

I sometimes hear the argument that a trust makes no sense for younger people with a small asset pool. However, in this day of universal super and default insurance, I feel this argument lacks authenticity. Certainly, once a client receives life insurance advice, it is highly probable that a substantial estate will exist, should premature death occur.

Taking Action: Please email us via the estateplanningforlife.com.au website for a copy of these graphics.

A reminder: these ideas have merit but need to form part of legal advice delivered by a qualified legal specialist. The adviser's job is to facilitate an outcome, not provide legal advice. Specialist estate planning lawyers are very comfortable and skilled with these structures.

In closing

Please feel free to download some of the resources from our web page and start talking to your clients about this subject.

In future articles, I will examine:

- Building and pricing a scalable estate planning offering within your practice.
- A review of current estate planning software solutions in Australia.
- The Family Tree – 11 questions that will change your business forever.
- Using estate planning to connect to the next generation.

Gil Gordon CFP® is proprietor and senior adviser at RI Lower Hunter. Gil is the architect of Estate Planning For Life, a scalable web based system that facilitates the delivery of estate planning solutions in accounting and financial planning practices Gil can be contacted on (02) 4013 6070 or at gil.gordon@estateplanningforlife.com.au

Footnotes

1. *www.ncbi.nlm.nih.gov/pmc/articles/PMC4119479/*

2. *Severing tenancy is exempt from Stamp Duty in NSW (and many other states) and there is a specific stamp duty exemption for the process. Legal and registration fees are typically only a few hundred dollars.*

A super chance to talk aged care

Assyat David debunks some common myths surrounding aged care advice and explains why planners should consider aged care as part of their suite of services.

The May 2016 Budget heralded significant changes to the superannuation system that come into effect from 1 July 2017, with far-reaching strategy implications.

As a result, over the coming months, advisers will meet with most of their clients to explain the changes, discuss the impact on each client individually, and determine actions that need to be taken. And what a great opportunity this is to broaden the conversation with clients to include aged care.

Rather than getting into detailed aged care strategies at this busy time, consider it an opportunity to determine whether your clients, or their parents, have current or impending aged care needs and determine the urgency of those needs. Sow the seed that you can provide aged care strategy and advice, and diarise to follow up with applicable clients in the new financial year.

Why aged care?

Australia's population is ageing. Life expectancy is increasing. According to the Australian Bureau of Statistics, Australia's median age – the age at which half of the population is older, and half is younger – has increased by three years over the past two decades (as at 30 June 2016).

While the median age is a relatively youthful 37, over the same two-decade period, the proportion of the population aged 65 years and over increased from 12.0 per cent to 15.3 per cent. It is projected that this cohort will increase more rapidly over the next decade as baby boomers continue to reach 65.

The Australian Government's most recent intergenerational report (2015 Intergenerational Report Australia in 2055) projects that by 2055:

- a greater proportion of the population will be aged 65 and over – in fact, the numbers are expected to double compared with today;
- 4.9 per cent of the population, or nearly two million Australians, will be aged 85 and over;
- there will be 40,000 Australians aged over 100, compared to approximately 5,000 in 2015.

While the intergenerational report found that babies born in 2055 will live, on average, well into their 90s, today's citizens are also enjoying the longevity that arises from better healthcare and a higher standard of living.

Chart 1 below outlines today's life expectancy for a range of ages.

Why aged care advice?

The ageing process impacts on family life. Whether it is a client who requires aged care

for themselves, or the children of clients making the move, preparing for aged care can be challenging. It is a time of change and upheaval, a confusing and emotional ride that many are underprepared for. This can create fear when a care need arises. While planning at the time of crisis is critical, planning ahead is far more effective.

Aged care advice is likely to become a major factor that shapes the delivery of financial advice in the future. It is, therefore, increasingly important that financial advisers have the conversation with clients

Chart 1: Life expectancy
- how many more years each age group is expected to live

Current age	Females (years)	Males (years)
50	35.9	32.5
55	31.2	28.0
60	26.7	23.7
65	22.3	19.5
70	18.0	15.6

Source: ABS Life Tables, States and Territories, 2013-2015.

early, to ensure that the appropriate aged care strategy – be it for the client or their parents – is in place to make the transition as seamless as possible. Planning ahead gives your client, and their family, time to make the best decisions possible.

A unique proposition

Advice on aged care is often sought by a client on behalf of aged parents. The principles of financial planning advice still apply, but the specifics of aged care require a different approach and knowledge. Three aspects make aged care advice unique:

1. The advice is not driven by product solutions. While products, such as reverse mortgages and annuities, have a role to play, the advice focuses on providing clients with options, so they can make informed decisions. This includes issues such as:

a. managing negotiations with aged care providers;
b. structuring cashflow;
c. options for the family home; and
d. estate planning and implementation.

2. The advice relationship is not just with the client moving into care, but extends to other decision-makers and influencers, such as children.

3. The decisions are often time critical and emotionally driven.

Aged care clients

Aged care isn't a conversation to have solely with older clients; in fact, clients in the age brackets in Chart 2 would benefit from strategic planning in this area.

Chart 2: Aged care planning

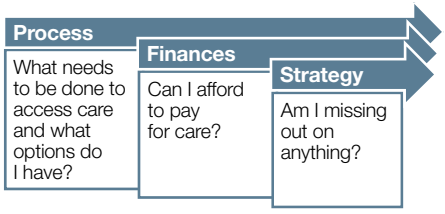
Accumulators - Age 40-65	• Adequacy of savings • Estate readiness • Supporting parents and dealing with aged care needs
Active retirees - Age 65-80	• Cashflow management • Maximising home care services • Equity release for home care • Estate planning
Care need retirees - Age 80-100	• Family guidance • Funding mechanisms • Cashflow management • Estate implementation

What do clients value?

Clients need to understand their choices to meet their objectives. Advisers often start to resolve aged care advice concerns by examining ways to reduce fees or increase pension entitlements. While these outcomes can be important, they are not typically the main concern of clients or their families, and should not be the primary focus of aged care advice.

From our experience, the concerns faced by clients seeking help with aged care generally fall into three principal areas as illustrated in Chart 3.

Chart 3: Client concerns



The children of aged care clients are often time poor and value guidance to relieve the pressure and uncertainty. A clear and objective roadmap with advice on how to avoid the pitfalls can make all the difference. Any savings in fees or additional government benefits should simply be a bonus.

Debunking the myths

There are two common misconceptions about the provision of aged care advice.

Myth 1: Advisers can't make money from aged care advice

Even a modest level of aged care activity can potentially provide significant financial benefits to the business from:

- Advice fees for aged care services;
- Securing new clients through developing relationships with the broader family;
- Intergenerational wealth transfer;
- Estate planning advice; and
- Efficiencies in delivering aged care advice to clients.

Myth 2: Aged care is only a transactional service

Advice and support is required for the various stages in retirement. Ongoing care needs include:

- Advice around renting the home – two year rule;
- Cashflow review;
- Ongoing management of assets;
- Estate planning implementation; and
- Intergenerational wealth transfer.

Have the conversation

Aged care advice is complex, but it can be extremely rewarding, both personally and professionally. Successful aged care advice hinges on good preparation, a strong client value proposition with matching service offerings, and efficiency in your business process.

Being proactive in the delivery of aged care services to clients can provide substantially more value to an adviser's business. It can help you build deeper and more valuable relationships with clients and ensure you continue to meet their needs.

So, be proactive. Set up a checklist to use when speaking to your clients about the latest super changes. Cover off each of the proposed super changes and be sure to include questions about their, or their parents', aged care needs. You don't need to get into strategy immediately. Instead, flag the aged care concept and if relevant to the client, diarise to discuss it later in the new financial year.

Assyat David is the co-founder and director of Aged Care Steps.

Super downsizing

The Government is allowing older Australians to sell their home and contribute a sizeable amount of the proceeds to their superannuation, enabling them to better fund their retirement and aged care needs.

The Government's downsizing proposal, announced in this year's Federal Budget, provides an interesting opportunity for older clients who may want to downsize their homes as they get older. By doing so, this may enable them to move to more suitable accommodation, such as aged care, as well as release equity to help fund living expenses, which may include much needed cashflow to help pay for home care service.

As part of the Government's proposal, from 1 July 2018, people aged 65 and over can contribute the proceeds from the sale of their home to superannuation.

A client can make a non-concessional super contribution of up to $300,000, regardless of their age, work status or total super balance. However, the home that they are selling must be their principal place of residence and it must be held for at least 10 years. Couples can contribute up to $300,000 each from the sale of the same home, making this a $600,000 contribution.

Clients with more than $1.6 million in super will be able to make these contributions but are still limited to investments of $1.6 million into income streams. Furthermore, any contribution would be assessable under the Centrelink and Department of Veterans' Affairs assets and income tests.

The benefit of this strategy is that earnings on the invested funds will be taxed at only the 15 per cent superannuation tax rate, or be tax-free if rolled over into an income stream, rather than the client's marginal tax rate.

Clients who downsize their home (and have available transfer balance caps) may be able to use surplus proceeds from the sale to purchase income streams or lifetime annuities to fund lifestyle and care needs. If the transfer balance cap has already been exceeded, the contributions can remain in the accumulation phase of super.

Client conversations

According to Aged Care Steps director, Assyat David, this Budget announcement provides an opportunity for planners to start the conversation with older clients on strategy options to fund their retirement and aged care needs.

"Clients who create surplus funds from the sale of their home may wish to consider using superannuation to reduce tax on investment earnings," David said. "If the equity released exceeds $300,000 (or $600,000 for a couple), alternative options also need to be considered.

"Planner discussions with clients on strategy options should take into account aged care needs now and in the future, and consider the increasing range and opportunities in home care."

There are a range of options available for clients wanting to invest their excess amounts (after superannuation) from the sale of their home. These include:

- An annuity – to provide a regular and secure income stream to fund living expenses and home care services.
- Low risk (and low return) investments, like cash and term deposits, for clients who favour security of capital.
- Australian shares to take advantage of franking credits and capital growth to help deal with longevity risk and/or future aged care needs, subject to the client's risk tolerance and investment time horizon.

Home equity release

However, Homesafe general manager, Dianne Shepherd said for older Australians wanting to remain in their homes for as long as possible, downsizing wasn't a suitable option for them. Instead, other types of retirement solutions, like equity release products, could be more suitable.

"Whether used to discharge mortgage debt, for lifestyle purposes, assisting family members, or covering the costs of in-home care, releasing the equity from the family home can support the changing needs of older Australians over time," Shepherd said.

She said the Homesafe equity release product was specifically designed to enable seniors to access the wealth tied up in their homes by selling a share of the future sale proceeds of their home.

"In essence, rather than downsizing and selling their home today as a whole asset, with an equity release product, the homeowner can sell a part of their home today and stay living in the family home until they either pass away or choose to sell and move," Shepherd said. "It's another possible solution that planners should consider in meeting the retirement needs of their older clients."

Housing Wealth and Retirement Funding

Housing wealth is increasingly being recognised as the "fourth pillar" of our retirement incomes system (alongside the age pension, compulsory superannuation and voluntary savings), despite being relatively untapped.

For current and soon-to-be retirees, rates of home ownership are high and their home is often their largest asset. It makes no sense to ignore this store of wealth in the context of retirement funding.

The family home is of course not just a store of wealth, but provides a place to live, with security of tenure. While the most obvious way to release housing wealth is to sell the home, this leaves the problem of where to live.

Downsizing might be an option for some retirees, but is not for everyone and many senior Australians wish to see out their retirement in the family home.

Homesafe Wealth Release is another option, whereby a retiree sells a share of the future sales proceeds of their home, in return for a cash payment upfront. A Homesafe customer retains the right to live in their home for as long as they wish to, with Homesafe receiving its share of the sales proceeds only when the home is sold, either by the retiree of their estate.

Releasing housing wealth can help a recent retiree remain in their home by extinguishing housing debt remaining at retirement. Housing wealth can also be used to replace a car or white goods, to finance home modifications, to maintain health insurance coverage, to fund help in the home, to help younger relatives enter the housing market, or just to live a more comfortable retirement than would otherwise be possible.

Homesafe Wealth Release is one way of enabling a retiree to use a portion of their housing wealth to fund something important to them, rather than bequeathing it all.

Help your older clients access the wealth from their home, when they need it most.

Register to become a Referral Partner by visiting **homesafe.com.au**

For over 12 years, Homesafe Wealth Release® has assisted thousands of Senior homeowners with our trusted alternative to 'downsizing' or going into debt. Homesafe Wealth Release is **not a reverse mortgage** and protects your clients by preserving the remainder of their home equity, not sold to Homesafe, into the future.

Talk to our team today to find out how debt-free equity release can enable your clients to access the wealth tied up in their homes.

Call us on **1300 307 059** or visit **homesafe.com.au** to learn how to become a **Homesafe Referral Partner** today!

Homesafe Wealth Release®

Change nothing. Change everything.

The debt-free way to live in retirement

Homesafe Solutions Pty Ltd (ACN 106 784 918) is a joint venture of Bendigo & Adelaide Bank and Athy Pty Ltd. Terms, conditions & eligibility criteria apply. Available in most metropolitan postcodes in greater Melbourne and Sydney.

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

Assessment of defined benefit income streams

WILLIAM TRUONG
IOOF

This article is worth
0.5 CPD HOURS

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- Types of capped defined benefit income streams
- Application of special tax rules
- Taxation of defined benefit income streams
- Defined benefit income stream reduced cap

This article focuses on the special rules concerning the valuation and taxation of defined benefit income streams.

Certain defined benefit income streams are subject to commutation restrictions and from 1 July 2017, they are to be referred to as 'capped defined benefit income streams'.

The new $1.6 million transfer balance cap is often described in terms of a cap applying to account based pensions, however, it relates to all retirement pensions, including non-commutable fixed term and lifetime defined benefit income streams. These income streams include those paid from SMSFs, corporate super schemes and government schemes.

To ensure that clients with these income streams experience similar tax concessions to traditional pensions, special valuation rules apply when calculating whether the client has an excess transfer balance, as measured against the $1.6 million general transfer balance cap.

Special rules also ensure that a client cannot have an excess transfer balance if the excess is attributable to these defined benefit income streams. Instead, the rules impose additional PAYG tax on income above a certain limit to ensure different super schemes are subject to broadly commensurate tax concessions.

Types of capped defined benefit income streams

There are two categories of defined benefit income streams:

1. Lifetime income stream (commenced at any time)
Lifetime pensions are often provided to Commonwealth, State and Territory public office holders, and military and civilian employees. Most of these schemes are closed to new members. However, existing members are entitled to receive pensions in the future. The extension of the rules to these pensions reflects the fact that while the client's pension may not have started before the application of these amendments, their pension is part of a long-standing arrangement to which there is an existing legal entitlement.

2. Term income stream (commenced before 1 July 2017)
Life expectancy and market-linked products are collectively referred to as term pensions and term annuities.

Special rules

There are special rules to determine the value of a defined benefit income stream applying to a client's transfer balance account. The rules in Table 1 apply to these types of defined benefit income streams.

The special value credit applies to a client's transfer balance account and is also used to determine a client's eligibility in relation to other areas of the law, for example, making catch-up concessional contributions.

Lifetime pensions and annuities that are capped defined benefit income streams are valued by multiplying the annual entitlement by a factor of 16. This means that a defined benefit pension that pays $100,000 per year would fully exhaust the $1.6 million transfer balance cap in the 2017/18 financial year. The single factor of 16 is used regardless of the client's age, gender, earnings on their assets, or the rates that can be drawn down.

Meanwhile, term pensions and term annuities are valued according to the superannuation income

Table 1

Income streams (non-commutable)	Special value of credit applied to transfer balance account
Lifetime income streams (purchased at any time)	Annual entitlement x 16
Life expectancy income streams (purchased before 1 July 2017)	Annual entitlement x remaining term
Term allocated pensions referred to as market-linked income streams (purchased before 1 July 2017)	Annual entitlement x remaining term

stream's annual entitlement multiplied by the number of years, rounded up to the nearest whole number, remaining on the term of the product.

The annual entitlement is calculated by annualising the first payment the client is entitled to receive after the valuation is required.

The formula to calculate the annualised entitlement is:
Annual entitlement = (first payment / days in period) x 365

The first payment is annualised based on the number of days in the period to which the payment refers.

Example 1: Valuation of a lifetime defined benefit pension
On 1 July 2017, Sarah receives a lifetime pension. Under the terms of the pension, Sarah is entitled to receive $2,000 every fortnight. Her annual entitlement is worked out as follows: $2,000 / 14 × 365 = $52,142.86.

Applying the multiplication factor of 16, Sarah's pension has a special value of $834,285.71. A credit arises in Sarah's transfer balance account for this amount. Subsequent increases to the income stream benefit relative to the first payment owing to indexation do not have an effect on the calculation of the annual entitlement.

Example 2: Valuation of a term defined benefit pension (purchased before 1 July 2017)
Steve purchases a market-linked pension in January 2017. The term of the pension is five years. At 30 June 2017, the pension has an annual entitlement of $100,000. The remaining term is rounded up to five years. The pension has a special value of $500,000.

Determining the excess

How do you determine the excess when there is a capped defined benefit income stream?

When a client has a capped defined benefit income stream, they will have a separate special balance, which is called the 'capped defined benefit balance'. This capped defined benefit balance is a sub-account of the client's 'transfer balance account' and reflects the net amount of capital a client has transferred to the retirement phase in respect of capped defined benefit income streams.

No upper cap applies to the capped defined benefit balance, which means clients cannot have an excess transfer balance to the extent the excess is attributable to these defined benefit income streams.

However, in calculating whether clients may have an excess for the purpose of the pension cap, the excess is calculated as the lesser of the amount that exceeds both:

- the personal transfer balance cap; and
- the capped defined benefit balance.

There is an excess when the client has exceeded both of these caps.

Example: Excess benefits
On 1 July 2017, Peggy starts to receive a lifetime pension with a special value of $2 million. The amount of $2 million is credited to Peggy's transfer balance account and to her capped defined benefit balance.

Although Peggy's transfer balance exceeds her $1.6 million transfer balance, Peggy does not have an excess transfer balance because the excess is entirely attributable to her capped defined benefit income stream.

Peggy is not required to reduce her retirement phase interests.

On 1 December 2017, Peggy purchases an account based income stream for $300,000, this is in addition to her capped defined benefit income stream. The amount of $300,000 is credited to Peggy's transfer balance account, which now increases to $2.3 million.

In Peggy's case, she exceeds both:

- *her normal pension transfer balance account by $700,000 ($2.3 million less $1.6 million); and*
- *her separate capped defined benefit balance by $300,000 ($2.3 million less $2 million that relates to her capped defined benefit pension).*

As the lesser of these amounts is $300,000, Peggy's excess is $300,000 and not $700,000. Peggy will be forced to commute $300,000 from the account based income stream back to accumulation or as a lump sum out of the superannuation system. She will be subject to excess transfer balance tax until she commutes the excess amount.

If the new superannuation income stream is insufficient to fully remove the crystallised reduction amount of $300,000 plus notional earnings, any remaining excess will be written-off.

Continues on page 30

Application of special tax rules

In terms of the application of special tax rules to capped defined benefit income streams, the following applies.

From 1 July 2017, special tax treatment applies to pension payments from the capped defined benefit income streams if clients are aged 60 or over, or those clients who are receiving death benefits from a deceased individual age 60 or over.

These types of clients are entitled to concessional tax treatment up to their 'defined benefit income cap'.

The defined benefit income cap is calculated as the general balance cap divided by 16, which is $100,000 per year in 2017/18.

Taxation of defined benefit income streams

Taxation of defined benefit income streams for clients age 60 or over is summarised in the Table 2.

Under the current rules, it's important to note that for those aged 60 or over, there is no limit to the amount of tax-free and taxable components of pension income that can receive concessional tax treatment.

Superannuation income streams may be from a taxed or untaxed source, or a combination of the two. Taxed source and tax-free component defined benefit income is considered first and is applied to the defined benefit income cap before any untaxed source income.

To the extent the client's taxed sourced or tax-free defined benefit income exceeds their defined benefit income cap, 50 per cent of the amount is included in their assessable income.

Example: Taxation of taxed sourced defined benefits
During 2017/18, Franke, aged 62, receives defined benefit income of $150,000 from her funded defined benefit scheme. The defined benefit income cap for the 2017/18 financial year is $100,000 (the $1.6 million general transfer balance cap divided by 16). Franke's defined benefit income exceeds the income cap by $50,000. Therefore, $25,000, which is 50 per cent of the $50,000 excess, is included in her assessable income and taxed at her marginal tax rate.

If there are any untaxed source income, it is considered next. Excess untaxed source defined benefit income is worked out by applying the client's untaxed defined benefit income stream payments to any amount remaining in their defined benefit income cap (after having applied taxed source and tax-free component defined benefit income). Any amount that exceeds the cap is not entitled to the tax offset.

Example: Taxation of both taxed and untaxed sourced defined benefits
Richard, who is 61, has a hybrid defined benefit pension and receives $180,000 of defined benefit income in 2017/18.

His pension comprises of:

- *$20,000 tax-free component;*
- *$75,000 taxed component; and*
- *$85,000 untaxed component.*

We first look at the tax-free and taxable components which total $95,000. This amount is counted towards Richard's $100,000 defined benefit income cap.

The first $5,000 of the untaxed component is also counted towards the cap, thereby exhausting it. The remaining $80,000 of untaxed component is not entitled to a tax offset.

Richard's tax offset is limited to $500, which is 10 per cent of the $5,000 counted towards the cap.

The same outcome would occur if the elements were from separate superannuation income streams, regardless of when either income stream was established.

Table 2

	Current rules	From 1 July 2017
Tax-free component	Tax-free	Tax-free up to the defined benefit income cap of $100,000 in 2017/18.
Taxable component – taxed element	Tax-free	50 per cent of the pension income over this cap is taxed at normal MTR (with no tax offset).
Taxable component (untaxed element)	Taxed at MTR less 10 per cent tax offset	Taxed at MTR less a 10 per cent tax offset but the offset is limited to 10 per cent of the pension payment to the extent that it falls within the defined benefit income cap of $100,000.

Defined benefit income stream cap – reduced cap

Defined benefit income that is subject to concessional tax treatment can count towards the defined benefit income cap.

Clients who are below age 60 and are receiving income from defined benefit income streams will continue to be taxed in the usual manner, which means they are taxed at marginal tax rates less a 15 per cent tax offset that applies to the taxed component. These clients are now categorised as clients who don't receive concessional tax treatment, even though they do receive a tax offset.

The defined benefit income cap is reduced if a client receives defined benefit income that is not subject to concessional tax treatment, as shown in the next example.

Please note that if the client first becomes entitled to that pension part-way through a financial year, their defined benefit income cap is reduced proportionately.

Example: Reduced cap due to non-concessional income stream
Ben, aged 58, receives $150,000 of defined benefit income in 2017/18. This consists of $80,000 of superannuation income stream member benefits and $70,000 of dependant death benefits.

Ben receives the death benefits because of an entitlement to the super interests of his late wife, Laura, who was 61 when she died. These super income streams are from a taxed source.

Ben is entitled to treat these death benefits as concessional income but not his member benefits, because he is under age 60.

The defined benefit income cap is reduced, as Ben receives defined benefit income that is not subject to concessional tax treatment.

In this case, Ben's defined benefit income cap for the 2017/18 financial year is reduced to $20,000. Calculated as $100,000 less $80,000 owing to his non-concessional income stream.

The first $20,000 of the taxed component from the concessional income stream, which is the death benefit income stream, is also counted towards the cap, exhausting it. There is no tax on this component.

Ben's death benefit income exceeds the income cap by $50,000. Therefore, $25,000, which is 50 per cent of the $50,000 excess, is included in his assessable income and taxed at his marginal tax rate.

Please note that non-concessional defined benefit income, the $80,000, is used to reduce the cap, but it cannot contribute towards an individual's excess amount.

Example: Reduced cap due to part year start of defined benefit income stream

Max receives income payments from a defined benefit fund. Max turned 60-years-old on 12 September 2017. Max becomes entitled to concessional tax treatment on this date. Max's defined benefit income cap for the 2017/18 financial year is worked out as follows:

$1.6 million / 16 x (1 + 291) / 365 = $80,000*

**291 represents the number of days remaining in the financial year.*

Summary

Clients receiving large defined benefit income should be aware there may be a special value attributable to their defined benefit income stream against the $1.6 million general transfer balance cap and in addition, there may be PAYG tax to pay, which translates to a reduction in the amount of money they will receive.

SMSF members and trustees who are aged 60 or over need to register for PAYG. They also need to calculate, deduct and pay taxes owing to the ATO.

The ATO has further information on registration for PAYG at the following link: *www.ato.gov.au/Business/Registration/Work-out-which-registrations-you-need/Taxation-registrations/Pay-as-you-go-withholding/*

William Truong is Technical Services Manager at IOOF.

QUESTIONS

1. From 1 July 2017, which of the following income streams will not be referred to as a capped defined benefit income stream?

a. Term allocated pension (TAP) commenced before 1 July 2017.

b. Lifetime income stream regardless of commencement date.

c. Account based pension commenced anytime.

d. Term income stream commenced before 1 July 2017.

2. Capped defined benefit income streams are those that are paid from?

a. SMSFs.

b. Corporate super schemes.

c. Government schemes.

d. All of the above.

3. Which of the following statements is not correct about taxation of capped defined benefit income streams from 1 July 2017?

a. Payments from such income streams is all taxed at the marginal tax rate.

b. Payments to those aged 60 or over are concessionally taxed up to a certain limit.

c. Payments to clients under age 60 remain taxed at marginal tax rates with a 15 per cent tax offset that applies to the taxed component.

d. Concessional taxation applies for those clients aged 60 or over up to income of $100,000 during 2017/18.

4. Lifetime defined benefit income streams have a special value calculated based on which of the following?

a. A single multiplication factor of 16.

b. A factor used is based on the client's age.

c. A factor used is based on the client's gender.

d. A factor used is based on whether the pension is indexed or not.

5. Which sentence is accurate when determining if the client has excess benefits for the purpose of the pension cap?

a. A client with only a defined benefit income stream may have an excess benefit.

b. There is an upper cap to the capped defined benefit balance.

c. A client will only have excess benefits if their benefits exceed both the pension transfer cap and capped defined benefit balance.

d. Clients with excess benefits with only a defined benefit income stream, must commute the excess amount back to accumulation or out of the super system.

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

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Understanding the $1.6 million transfer balance cap

ALENA MILES
AMP

This article is worth
0.5 CPD HOURS

FPA DIMENSION
CRITICAL THINKING

ASIC KNOWLEDGE AREA
SUPERANNUATION

Includes
- Breaching the personal transfer balance cap
- Excess determination from the ATO
- Contribution splitting
- Post 1 July 2017 considerations

Currently, there is no tax on income and capital gains derived on assets supporting a superannuation income stream, irrespective of the type and the value of the pension.

From 1 July 2017, the $1.6 million transfer balance cap limits the total amount of superannuation benefits an individual can transfer into an income stream where earnings continue to be tax exempt (retirement phase).

Importantly, a transition to retirement (TTR) pension does not count towards the $1.6 million transfer balance cap whilst it is a TTR pension. However, as soon as the TTR recipient meets another condition of release that makes the pension unrestricted non-preserved (eg, retirement, permanent incapacity or reaching age 65), the value of the TTR pension will be included.

The value of a death benefit income stream also counts towards the recipient's transfer balance cap. When and how much is counted depends on whether the pension is auto reversionary or not. Special rules apply to calculate how much transfer balance cap is available to commence a child account based pension.

A modified application of the transfer balance cap applies to non-commutable income streams, including lifetime pensions paid from defined benefit and constitutionally protected funds.

Key terminology

- **The general transfer balance cap** is $1.6 million for the 2017/18 year and will be indexed to CPI (in $100,000 increments) thereafter.
- **The personal transfer balance cap** is the amount an individual can transfer to retirement phase. In the first financial year of transfer, the individual's personal transfer balance cap will be the same as the general transfer balance cap at that time (eg, $1.6 million for 2017/18).
- **The transfer balance account** tracks how much a person has transferred into and out of retirement income phase and allows a client to determine whether they have exceeded their transfer balance cap on any given day. Each transfer balance account will be maintained by the Australian Taxation Office (ATO) and must also be monitored by the individual and their adviser, if applicable.

The transfer balance account broadly operates on a system of credits and debits (eg, like a bank account).

Amounts credited to (counted towards or increasing) a person's transfer balance account include:

- The value of all superannuation income streams in the retirement phase on 30 June 2017 (including most death benefit income streams);
- The commencement value of new superannuation income streams started on or after 1 July 2017 (including most death benefit income streams); and
- Notional earnings amounts that will accrue on excess transfer balance amounts.

The Government has proposed that a credit will also arise where the repayment of a Limited Recourse Borrowing Arrangement in an SMSF shifts value between accumulation phase interests and retirement phase interests. The amount of the credit that an individual member receives will equal the increase in

the value of their retirement phase superannuation interests. At the time of writing, this proposal is not yet law.

An individual's transfer balance account will be debited (reduced) when:

- They commute (in part or full) capital from the retirement income phase. The amount of the debit will be equivalent to the amount that is removed from the retirement phase, regardless of whether the amount is returned to the accumulation phase or is withdrawn completely from the superannuation system.

- Certain other transactions occur (eg, where the retirement income stream is commenced using the proceeds from a personal injury structured settlement, certain family law payment splits, fraud, and some transactions under the *Bankruptcy Act*).

Importantly, increases or decreases in the value of the income stream due to the investment earnings are not counted as debits or credits.

Strategic opportunity: Optimal drawdowns of pension

Additional amounts that a pension recipient can transfer into retirement phase (eg, add to their pension or start a death benefit pension with) depends on:

- if indexation is available[1] - their unused cap percentage; and

- their net transfer balance account position.

Regular pension income payments are not debits to an individual's personal transfer balance account but lump sum commutations are.

Clients whose cash flow and capital requirements exceed the legislative minimum income drawdowns should consider only taking the minimum income from their account based pensions and supplementing their remaining needs from:

– their accumulation account (if they have one); or

– lump sum commutations from their pension (if they do not have an accumulation account). The commutation amount will result in a debit to the transfer balance account. If the client wishes to transfer additional money into retirement income phase, then a higher amount of personal transfer balance cap will be available as a result of these debits.

Breaching the personal transfer balance cap

If an individual's transfer balance account exceeds their personal transfer balance cap, an excess transfer balance will arise. The two main consequences of this are:

1. The individual having to commute (back to accumulation phase or as a lump sum withdrawal) their retirement income stream to remove the excess capital plus a notional earnings amount; and

2. Excess transfer balance tax payable on the notional earnings.

Excess transfer balance earnings accrue on the excess balance daily and are generally credited towards an individual's transfer balance account. These earnings compound daily until the earlier of the day:

- the breach is rectified; or

- the ATO issues an excess determination.

The rate at which excess transfer balance earnings accrue is based on the general interest charge. During the 2016-17 financial year, the general interest charge averaged 8.8 per cent per annum.

Excess transfer balance tax is payable on an individual's accrued notional earnings over a financial year. These amounts are taxable, even if the breach has been rectified and the notional earnings removed from an individual's retirement phase.

The standard rate of excess transfer balance tax is 15 per cent. For a subsequent breach, the rate is 30 per cent (applicable from 2018/19 onwards). This is designed as an intentional deterrent.

The ATO issues a taxpayer with an assessment notice which has the total notional earnings and the tax. The individual has to pay the tax within 21 days of receiving the notice.

Transitional provisions

Transitional provisions provide that an individual will not have an excess transfer balance in the transitional period from 1 July 2017 to 31 December 2017 if:

- the only credits in their transfer balance account are from existing superannuation income streams as at the end of 30 June 2017;

- their transfer balance is more than $1.6 million only by an amount equal to or less than $100,000; and

- their transfer balance is reduced below $1.6 million by 31 December 2017.

Some clients eligible for transitional provisions should still consider removing the excess amount from retirement phase prior to 1 July 2017.

To qualify for transitional CGT relief, assets broadly must be re-allocated from 'pension phase' to the 'accumulation phase' prior to 1 July 2017 to comply with the transfer balance cap changes.

Clients waiting to move the assets to the accumulation phase after 1 July 2017 will be ineligible to make the election to apply for CGT relief.

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From 1 July 2017, the $1.6 million transfer balance cap limits the total amount of superannuation benefits an individual can transfer into an income stream where earnings continue to be tax exempt (retirement phase).

Practical considerations

Where an excess personal transfer balance cap is identified, the adviser should proactively work with the client to rectify the breach as soon as possible.

In determining the amount to commute, advisers should take into account not only the original excess transfer balance, but also the excess transfer earnings and the time required for the superannuation provider to action a commutation.

Deciding on whether to remove the excess from super or retain in the accumulation phase
The appropriate course of action depends on the clients' circumstances including:

- whether their spouse is eligible to contribute the withdrawn amount into their super to even out the account balances.
- the tax implications (eg, funds retained in accumulation phase are taxed a maximum of 15 per cent. Funds withdrawn and invested outside of super are taxed at personal tax rates, including relevant offsets. Due to the application of the Seniors and Pensioners Tax Offset, singles with 'rebate' income of up to $32,279 per annum or couples with income of up to $28,974 per annum each, pay no tax outside of super. This means that some people will pay less tax by investing the excess outside of super).
- estate planning considerations, such as intended beneficiaries and tax impacts of receiving the funds inside or outside of super.

Excess determination from the ATO

The best course of action for clients who have exceeded their transfer balance cap is to rectify the breach as soon as possible, and ideally, prior to the ATO issuing them with an excess transfer balance determination.

However, if an excess determination is received, it will state the 'crystallised reduction amount', which is the individual's excess transfer balance (the excess amount plus the notional earnings on this amount to the date of the determination). This is the amount that must be debited from the individual's transfer balance account. Excess transfer balance tax is imposed on the earnings from the date of the breach until the date the excess transfer balance is removed.

The determination will also include the details of the superannuation provider the ATO will issue a default commutation notice to.

Typically, this will be the income stream which caused the excess transfer balance, except where this superannuation income stream is subject to commutation restrictions. This commutation notice will effectively require the super fund to reduce the pension by the amount specified in the notice. The individual will also have an opportunity to make an election to nominate a different provider to the ATO.

What advisers need to do

Before 1 July 2017
Advisers should identify clients who are in excess (or are very close to being in excess) of the transfer balance cap before 1 July 2017.

If the clients are a couple, there may be an opportunity to even out account balances, so that each person is within the $1.6 million transfer balance cap by 1 July 2017. This may involve making a withdrawal from the superannuation of the partner with a higher balance and recontributing it into the name of the spouse with a lower balance.

This is particularly important up to 1 July 2017, as it may allow the clients to take advantage of the higher bring-forward provisions and the higher general non-concessional cap.

If this is not available, advisers should consider these clients' circumstances to determine the most appropriate way to reduce their personal transfer balance amount to $1.6 million by 30 June 2017. When determining the appropriate strategy, consideration should be given to:

- If multiple pensions are in place, which pension should be commuted, given the tax components of each pension, Centrelink/aged care considerations and the estate planning objectives?
- Whether the excess should be retained in super or invested outside of super.
- Where relevant, whether electing to apply the CGT rollover relief is available and beneficial.

After 1 July 2017

Ongoing contribution splitting and spouse contributions to a partner with a lower total superannuation balance should be considered for couples.

To avoid penalties, advisers should ensure that the new pensions commenced after 1 July 2017 do not exceed the client's personal transfer balance cap.

Many clients will benefit from considering the best way to structure the receipt of income from superannuation (eg, only receive the legislative minimum and make commutations for the remainder).

Alena Miles is Technical Services Manager at AMP.

Footnote

1. The general transfer balance cap will be indexed to CPI (in $100,000 increments). Once an individual has used up their cap, they will not have their personal transfer balance cap indexed.

QUESTIONS

1. Rob (age 65) and his wife Linda (age 58) have account based retirement pensions of $1.8 million and $1 million. Which of the following actions could they consider to comply with the $1.6 million transfer balance cap prior to 1 July 2017?

a. Rob withdraws $540,000 from his pension and contributes the whole amount into superannuation for Linda prior to 1 July 2017.

b. Rob commutes $200,000 of his pension back into the accumulation phase prior to 1 July 2017.

c. Rob withdraws $200,000 from his pension prior to 1 July 2017 and invests it outside of super.

d. All the above.

2. What are the consequences of an individual exceeding their personal transfer balance cap?

i. The excess capital plus notional earnings can only be commuted outside of the super environment on all pensions.

ii. Notional earnings accrue on the excess transfer balance and will be taxed at 15 per cent for the first breach.

iii. The excess capital plus notional earnings must be commuted back to accumulation phase or to a lump sum.

iv. Only the excess capital needs to be commuted.

a. iii only.

b. i and ii.

c. ii and iv.

d. ii and iii.

3. Which of the following factors should be considered when advising whether the excess transfer balance amount should be retained in superannuation or cashed out?

a. Comparing tax payable on the amount invested inside and outside of super.

b. Whether the client has a spouse and that spouse's superannuation balance.

c. Who the intended beneficiaries are.

d. All the above.

4. Which of the following statements is incorrect?

a. A TTR pension does not count towards the $1.6 million transfer balance cap until it becomes an 'unrestricted' retirement pension.

b. A death benefit pension counts towards an individual's transfer balance cap.

c. If a client breaches their personal transfer balance cap, they should always wait for the determination from the ATO before taking action.

d. Individuals who have used up their cap will not have their personal transfer balance cap indexed in the future.

5. Which of the following are debits to the individual's pension transfer balance account?

i. Lump sum commutations.

ii. Rolling back to accumulation phase.

iii. Negative investment earnings.

iv. Minimum income payments.

a. i and ii.

b. i, ii and iii.

c. i and iii.

d. i, ii and iv.

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

Upcoming Chapter Events

WEDNESDAY 12 JULY
Brisbane

The **Brisbane Chapter** will be hosting its inaugural Future2 State of Origin luncheon on 12 July at Blackbird, Eagle Street Pier, Brisbane. This year's event will include football legends, such as former NSW Blues great Tommy Raudonikis OAM, former Qld Maroon great Trevor Gillmeister and current Gold Coast Titans coach, Neil Henry.

MONDAY 25 SEPTEMBER
Melbourne

The **Melbourne Chapter** committee invites you to the annual AFL Grand Final lunch, in support of Future2, on 25 September at Etihad Stadium. In past years, this has been a sell-out event, with guests entertained by a star filled AFL line-up. This year's panel line-up includes football legends Tim Watson and Billy Brownless, plus some current and former players. There will also be a well-known comedian on-hand to entertain attendees.

MONDAY 30 OCTOBER
South Australia

The **South Australia Chapter** will hold its annual Future2 Foundation Charity Golf Day on 30 October at Kooyonga Golf Club, Lockleys. The challenging layout and sensational playing surfaces of this championship golf course provides players with the ultimate golfing experience. This Ambrose event includes a light lunch, pre-dinner drinks and dinner.

TUESDAY 7 NOVEMBER
Western Australia

The **Western Australia Chapter** is holding its annual Future2 Melbourne Cup luncheon and auction on 7 November at Beaumonde 'On the Point'. This popular annual event features entertainment and prizes to win, while providing a great opportunity to network with your peers over a three course sit down lunch.

Applying a positive mindset

On 17 May, the **Melbourne Chapter** hosted its annual FPA Women in Financial Planning Lunch, with New Zealand-born and Melbourne-based entrepreneur, Anna Ross the guest speaker.

Anna is the founder and chief executive officer of Kester Black – a business whose sole focus is the design and production of ethical and sustainable cosmetics and skincare. Since its launch in 2012, Kester Black has become one of the fastest-growing and most innovative beauty brands.

This year's event attracted 180 guests, and they were not disappointed with Anna's candid and entertaining approach to telling her story. Whilst the financial planning profession is a far cry from the world of ethical cosmetics, Anna's key messages of creating and maintaining a positive mindset, and approaching problems and challenges with resilience and determination, resonated with all the attendees.

Anna Ross: Ready to challenge the status quo.

Everyone left the lunch feeling highly encouraged, uplifted and motivated to challenge the status quo, knowing that we're all capable of achieving whatever we set our minds to.

The Melbourne Chapter would like to thank APN Property Group (gold sponsor) and Financial Services Partners (silver sponsor) for their support of this event. The Chapter also acknowledges Anne Graham CFP® LRS® for representing the Future2 Foundation, which was very well supported on the day.

Maximising client engagement

The recent **Gold Coast Chapter** event was well attended, where guest speaker, Bob Blurton, provided an informative presentation on innovative digital marketing, methods of maximising client engagement and sourcing the next generation of referrals.

Chapter Chair, Matthew Brown CFP® congratulating Philippa Sheehan AFP® for raising $10,000 for Future2 at her licensee's recent conference.

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

Little Miss Fix It

Susie Wilke talks to *Financial Planning* about how its 2016 Make the Difference! Grant is helping multicultural youth in South Australia.

Grant recipient:
Multicultural Youth SA

Grant amount: **$10,000**

Endorsed by:
Yee Wah Hooi-Duran CFP®, Beyond Bank Wealth Management

FPA Chapter: **South Australia**

Multicultural Youth SA (MYSA) is a representative advisory, advocacy and service delivery body for young refugees and migrants aged between 12 and 30 years. It is the only youth-specific multicultural agency in South Australia, and one of two youth-specific multicultural agencies in the country.

According to MYSA's Susie Wilke, the $10,000 Future2 grant is being used to deliver the 'Little Miss Fix It' program, which offers an innovative approach to enhancing the independent living skills and capacity of young women aged 12-25 from multicultural and indigenous communities in South Australia.

"MYSA's 'Little Miss Fix It' program brings a group of young women together for fortnightly sessions with the aim of developing a range of skill and knowledge sets," Wilke says. "Sessions consist of an educational component aimed at increasing skills and knowledge often reserved for men within their cultures, as well as fun, recreational components that promote social inclusion."

An example of this social inclusion was a session with a local mechanic who taught the girls how to change a tire, check their car oil levels and what to do if they find themselves broken down and stranded.

Young women have also had cooking classes with a professional chef, learned about healthy lifestyles and have also visited ShineSA – a sexual health clinic – to learn about keeping themselves safe from STIs and unplanned pregnancies.

Yee Wah Hooi-Duran CFP® (on right) presenting the Future2 cheque to MYSA.

Wilke says young women from indigenous, refugee and migrant backgrounds often experience a range of barriers that place them at greater social and economic disadvantage than their Australian-born counterparts, such as racism and discrimination, and, for new arrivals, learning a new language and culture.

"These barriers make it increasingly difficult for young people to value their own capabilities and invest in their own skill development, as they are preoccupied with overcoming significant adversity," Wilke says.

However, she adds that the Future2 grant will make an enormous difference in overcoming these barriers for young women.

"This grant has given us the ability to design and deliver a program specifically for young women who come from cultural contexts where they do not receive the same education, resources or opportunities as their male counterparts," Wilke says. "The project addresses this by up-skilling young women to reduce the likelihood of them becoming dependent on their future male partners."

In endorsing MYSA's 'Little Miss Fix It' program for a Future2 grant, Yee Wah Hooi-Duran CFP® says it was important to support education initiatives in the community.

"Education played an important role in my life and helped me achieve my goals of becoming a financial planner. So, as a planner, I'm passionate about using my knowledge and skills to help my clients achieve their life goals," says Hooi-Duran.

"That's why I believe the 'Little Miss Fix It' program is a great way to teach knowledge and skills to young women. By empowering women through this program, we can improve their education and employment outcomes, and ultimately, help them achieve their own goals in life."

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