PP 243096/00011

OFFICIAL PUBLICATION
OF THE FINANCIAL PLANNING
ASSOCIATION OF AUSTRALIA

Financial Planning

Volume 29 Issue 9

October 2017
$15.00

The psychology of money

Claudia Hammond on improving our spending habits

THIS ISSUE

TTR INCOME STREAMS / TRENDS IN ANNUITIES / CONGRESS 2017 / KEY PERSON INSURANCE / EDUCATION FRAMEWORK POLICY

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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October 2017

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

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

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

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

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

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

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Average Net Distribution Period ending Mar '17
11,265

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The evolution of planning

The new professional and education framework represents a turning point for the financial planning profession, and an opportunity for us to take our profession's future into our own hands.

As we wait for the newly appointed Financial Adviser Standards and Ethics Authority (FASEA) to establish the details of the new framework, one thing is for sure – the financial planning profession is at a pivotal moment and there will be many positive outcomes for the Australian public. I am proud of what we have achieved to date, and optimistic about what is yet to come.

FASEA CEO

I want to warmly acknowledge the appointment of Dr Deen Sanders as the inaugural CEO of FASEA. Deen has a great track record and is well-known to the FPA, as he was previously our Chief Professionalism Officer for six years. I look forward to working with Deen and his team at FASEA in preparation for the commencement of the new education and professional standards.

On pages 14-15 of this edition, you can read about the three white papers that we've recently completed to guide our consultations with FASEA around the new standards.

Magazine revamp

I'm excited to announce that next month we will deliver a new-look Financial Planning magazine, following a review of the publication. Thank you to those members who took part in our recent readership survey or joined us at a focus group to share your views on the magazine. I look forward to sharing the fresh new look. Stay tuned!

Biggest Congress yet

We are now in countdown mode to this year's FPA Professionals Congress in Hobart, happening on 22-24 November. We have been overwhelmed by registrations and I know it's going to be a brilliant event with great atmosphere for you to connect with your peers, as well as opportunities to be inspired by our keynote speakers and industry experts.

Recognising excellence

At the Congress, we will be announcing the winners of the 2017 FPA Awards. Thank you to everyone who took the time to apply this year.

We received a huge increase in entries and I look forward to congratulating our members who have shown a commitment to superior client outcomes, community outreach and outstanding practice management, as well as those excelling in paraplanning and in their financial planning studies.

Global celebration

Following the success of Financial Planning Week, we're excited to be celebrating the very first World Financial Planning Day on 4 October. The FPA is also supporting this initiative alongside the Financial Planning Standards Board (FPSB) and its network of member organisations, representing a global community of over 170,000 CFP® professionals. It will be great to see financial planning on a global stage, as countries unite to raise consumer awareness of professional advice.

Enjoy the edition.

It will be great to see financial planning on a global stage, as countries unite to raise consumer awareness of professional advice.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

Fintechs struggle to overcome scale

Whilst the rise of fintech companies have undeniably changed the basis of competition in the financial services sector, they have not yet significantly changed the competitive landscape, as they continue to struggle to overcome the scale advantages of large institutions.

This was one of the key findings from the World Economic Forum's report *Beyond Fintech: A Pragmatic Assessment of Disruptive Potential in Financial Services*. According to the report, areas in which fintechs were succeeding include:

- Seizing the initiative by defining the direction, shape and pace of innovation across almost every subsection of financial services, both as standalone businesses and as parts of other companies' value chains.
- Reshaping customer and client expectations, and setting new and higher bars for user experience. Fintechs are showing that the customer experience bar, set by large technology companies like Apple and Google, can be met in financial services.

However, the report also highlighted the areas in which fintechs were falling short. These include:

- The willingness of customers to switch away from incumbents has been overestimated. Customer switching costs are high, and new innovations are often not sufficient enough to warrant the shift to a new provider, particularly as incumbents adapt.
- Fintechs have struggled to create new infrastructure and establish new financial services ecosystems. They have been more successful in making improvements within traditional ecosystems and infrastructure.

The project team behind the *Beyond Fintech* report also identified eight areas of disruption that have the potential to shift the competitive landscape of the financial ecosystem over the coming years. There are:

1. Cost commoditisation: Financial institutions will accelerate the commoditisation of their cost bases, removing them as points of competition and creating new grounds for differentiation.

2. Profit redistribution: Technology and new partnerships will enable organisations to bypass traditional value chains, thereby redistributing profit pools.

3. Experience ownership: Power will transfer to the owner of the customer interface; pure manufacturers must therefore become hyper-scaled or hyper-focused.

4. Platforms rising: Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services.

5. Data monetisation: Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time.

6. Bionic workforce: As the ability of machines to replicate the behaviours of humans continues to evolve, financial institutions will need to manage labour and capital as a single set of capabilities.

7. Systemically important techs: Efforts by incumbent financial institutions to emulate the core capabilities of large technology firms will lead to an increasing reliance on those same large technology firms.

8. Financial regionalisation: Diverging regulatory priorities, technological capabilities and customer needs are challenging the narrative of increasing financial globalisation and making way for regional models of financial services suited to local conditions.

The Beyond Fintech report is the result of three years of research. It was prepared by the World Economic Forum in collaboration with Deloitte.

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Cost of living adds pressure to retirement

Whilst the cost of living for those in retirement has only increased slightly over the past quarter, the continued increase in the costs of food, electricity, health and water are still putting pressure on many Australian retirees to achieve a comfortable standard of living in retirement.

This was one of the key findings coming out of ASFA's Retirement Standard June quarter figures, which has seen the Association revise up the amounts needed for retirees wanting a modest and comfortable lifestyle in retirement.

For couples aged around 65 who want to live a comfortable retirement, they will now need to spend $60,063 per year, with singles needing $43,695 – an increase of 0.2 per cent on the previous quarter.

At the modest level, singles now need to spend $24,270 and couples will need $34,911 – up 0.1 per cent on the previous quarter.

Total budgets for older retirees (those aged 85 and over) increased by around 0.5 per cent, compared to the previous quarter at both the comfortable and modest levels.

The annual increase in living costs at the modest level was in each case higher than at the comfortable level, reflecting the greater relative importance of electricity, health care, council and water rates in the modest budgets.

The annual increase was 1.5 per cent for comfortable and 2.1 per cent for modest. These compare to 1.9 per cent for the general Consumer Price Index.

The most significant price increases in the June quarter contributing to increases in annual budgets for retirees were for medical and hospital services (4.1 per cent), reflecting the annual increases in private health insurance premiums on 1 April.

Commenting on the findings, ASFA chief executive officer, Dr Martin Fahy said: "The cost of retirement over the most recent quarter only increased by a relatively small amount and that is welcome news, but many retirees are still finding it difficult to achieve a comfortable standard of living in retirement.

"In particular, retirees with health care needs are facing significant increases in costs."

Fahy said the pension was not enough to sustain a comfortable retirement and called for greater financial literacy in the community.

"We need people to be retirement ready by saving for the sort of life they want to live. The magic of compound interest and tax savings in super can help lift living experiences in later life," Fahy said. "Retirees now and in the future need their super to increase and be safeguarded. People need to be super skilled to be free from major financial worries."

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

NSW

Richard Moule CFP®
First State Super Financial Services

Nicholas Ridge CFP®
Shadforth Financial Group

David Marginson CFP®
Mercer Financial Advice (Australia)

Brendon Harris CFP®
AFM Advisers

Mohammed Javed Wasef CFP®
Commonwealth Financial Planning

QLD

Nicola Welch CFP®
Future Gen Solutions

VIC

James Holt CFP®
Havelock Wealth Management

Simon Ereaut CFP®
Australian Private Capital

Sze Rong Chan CFP®
Commonwealth Financial Planning

WA

Stuart Webster CFP®
Bennett Wealth Group

Record number inspired to Live the Dream

This year's 17th consecutive Financial Planning Week (21-27 August) for the FPA succeeded in re-energising and inspiring more Australians to live their dreams and a life without regret. The aim of this year's 'Live the Dream' campaign was to raise greater awareness and trust in the financial planning profession amongst consumers.

Through media coverage alone, the campaign reached:

- **21 million consumers online;**
- **4 million in print;**
- **1.4 million across radio; and**
- **120,000 consumers via four television segments.**

FPA chief executive officer, Dante De Gori CFP® said the 'Live the Dream' and #getaplan message was a powerful one for all generations and genders across Australia.

"We took a deep dive into how we are going as a nation at living out our dreams. We shared fascinating data insights into the habits, beliefs and demographics of an enviable group of Australians who are most happy with their lot in life," De Gori said. "Not only are they more likely to seek the advice of a financial planner, but they are more likely to meditate and get up early."

The 'Live the Dream' campaign included national sentiment research, a launch video featuring an ensemble cast of everyday Australians, a client case study video, a social media competition giving consumers the chance to win $5,000, as well as insightful content on the FPA's Money & Life website, that not only offered hints and tips but also provided an interactive money destiny quiz.

"This year we wanted to extend the reach and impact of the campaign, so we developed a suite of resources that members, industry stakeholders and social media influencers could easily share among their own networks. This meant our message reached far and wide, and resulted in the campaign being a great success," De Gori said.

De Gori added that having FPA members, organisations and key influencers get behind the 'Live the Dream' campaign and share in the celebration, meant that this year's campaign was able to extend beyond what the FPA has been able to achieve in the past.

"Having shareable resources, such as the social media competition and the research infographics, enabled the 'Live the Dream' conversation to take place on social media, helping to increase the reach of our message and put financial planning on the radar of more Australians," De Gori said.

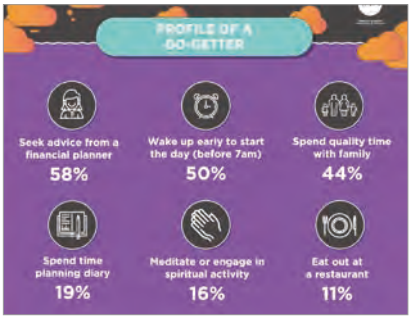
This year, the campaign was focused around action, where the FPA encouraged Australians to #getaplan in order to reach their dreams and live a life without regret.

"We asked our members and other stakeholders, such as educators, industry regulators, licensees and other associations, to share our research and social media content. We were delighted with the high level of engagement the campaign received and look forward to building on this success going forward," De Gori said.

KEY RESULTS

- 62 online articles reaching 21 million Australians
- 29 print articles reaching 4 million Australians
- 12 radio mentions reaching 1.4 million Australians
- 4 television segments reaching 120,000 Australians
- 2,192 social media competition entries received
- Over 32,000 views of **Money & Life**
- Over 200,000 views of the campaign videos
- Over 650,000 people reached on social media

To view the campaign videos, go to: fpa.com.au/financialplanningweek



Content quality v quantity

Q: What are you doing to create content to keep your clients informed and engaged in the financial planning process?

Lynda McKie CFP®
Senior Private Wealth Adviser, Elston
Licensee: EP Financial Services

More than ever before, we're noticing that clients are hungry for relevant and timely content to help them make astute financial decisions. That's why, within our business, communication is a key priority. We understand the importance of sharing crucial portfolio and market information quickly, so when changes are made or market events occur, clients know what has occurred and why – on the day.

We communicate openly and often with our clients, delivering valuable, engaging content, astute analysis and commentary, through a number of different channels. These include our website, email, social media, e-newsletters, blogs, in-house presentations, videos and more.

We get a lot of positive feedback about our in-house presentations, which cover a variety of investment, economic and technical financial planning topics. They also provide a forum to talk about the latest changes to super and tax legislation. We encourage clients to ask questions and get involved.

By keeping clients well-informed and managing their expectations, we've created a loyal customer base. In turn, because our clients are having a positive and satisfying experience with us, they regularly introduce friends and colleagues to our business.

I believe financial advice firms that provide regular, high quality content have a competitive advantage over those that don't. It has become an integral part of the service offering our clients have come to expect, and a valuable business-getting tool.

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

Engagement is a funny word. Does it mean:

1. The clients understand and value the work we do; or
2. We do work that the clients understand and value?

Ideally, the answer is both, which means our value proposition is aligned to client objectives. Experience teaches me that many (if not most) advisers think they provide a service that clients don't really understand, like portfolio management and review.

In ASIC's *REP 499: Financial advice: Fees for no service*, the point is made quite clearly that some advisers are charging fees for services offered but not provided – a major outtake was the adviser's offer of a review, rather than the provision of that review. Why didn't the clients take up the review offer?

Failure to map our service to the client's human objectives is both dumb and, with Report 499, now a genuine threat to our business.

To keep our clients engaged with our offering, we capture their human goals and burdens, such as retirement, holidays, cashflow management, estate planning and aged care. In our practice, we build and maintain a living financial model that shows when they will achieve their objectives and this then shapes their objectives and our advice. Our clients understand that we can help them make better decisions as life throws them brickbats and roses.

Our process has been validated by the Beddoes Institute in a client survey, where we were the first practice to receive a score of 10/10 for 'Initial Engagement and Advice', as well as 10/10 for 'Understanding Client Needs'.

Rebecca Fergusson CFP®
Principal and Private Client Adviser, Main Street Financial Solutions
Licensee: Fitzpatricks Private Wealth

Creating quality content to keep in touch with our clients has been an important part of the growth of our business. It helps us establish emotional connections with our clients and to keep them informed. We do this in a number of ways.

Firstly, every new client receives an introduction email prior to their initial meeting, with adviser profiles attached and links to our website. On an ongoing basis, clients receive targeted emails in relation to specific topics, market commentary and issues, monthly newsletters and access to the Financial Knowledge Centre, which includes calculators, videos and articles.

We have created a number of videos that can be found on our website or YouTube channel. We use these videos to get our point of difference across, to explain why we do what we do and for client testimonials. We also have videos and blogs in relation to specific client issues, such as personal insurance or estate planning.

We have also produced several eBooks, including *Secrets of Successful Investors* and *How to Choose a Financial Planner*, which can be downloaded from our website.

Finally, social media, of course, plays a part in how we communicate with clients and the broader market.

We use Twitter for short messages, Facebook to provide information on what is happening within the office at a personal level to help clients feel part of our team, and LinkedIn to reach out to professionals and referral sources.

We now have so many different ways to communicate with clients and keep them engaged. We understand that this helps connect with clients and the broader market and improve our brand recognition, but we are conscious that it's important not to publish too much content – quality versus quantity seems to be the key.

Creating quality content to keep in touch with our clients has been an important part of the growth of our business. It helps us establish emotional connections with our clients and to keep them informed. – **REBECCA FERGUSSON**

Anne Graham CFP® LRS®

Managing Director/Senior Financial Planner, Story Wealth Management
Licensee: Securitor

We provide content via our website and social media to prospective clients before they even make an appointment.

Most people will Google you before they make an appointment, so we attempt to have an informative website that provides an overview of our process, what to expect and importantly, our approach to and philosophy about advice. We've used video to introduce each team member to the client, so they can put a face to the name and realise we're people, too.

There's additional content on the site that is educational and that's provided by The Knowledge Centre – both prospective and existing clients benefit from that information. Clients have logins, which provides them with exclusive access to the entire library. Using external content providers is very cost and time effective.

Our social media presence has a number of purposes, which all revolve around engagement. We have a presence across LinkedIn, Facebook and Twitter, and use each of them slightly differently.

We not only provide education but also provide comment and opinions around issues that are important to our clients. We try to put some personality in our marketing to ensure clients are comfortable dealing with us and have a sense of who we are. The social media aspect can be automated, to a degree, to manage time.

During the process of engagement, we use an online mini fact-find, which has generated positive feedback. Videos are being used more frequently for obvious reasons.

On a more personal level, we reach out to individuals with commentary, articles, fact sheets on issues that are specific to their concerns, whilst personalising the process. Print information is also used to break up the mode of delivery and that appeals to some of our older, more traditional clients.

Robert Goudie CFP®

Financial Adviser, Meritum Financial Group
Licensee: MLC

Providing content to clients starts from the first initial contact and continues right throughout the client/adviser relationship.

Prior to a prospective client's first appointment, we send out an email, along with a welcome video. The primary objective of the video is to familiarise the client with myself and the office surroundings, while letting the client know what to bring and what to expect from their first appointment.

In more complex client situations, we will often follow-up the initial appointment with a personal video, which highlights the key points that they need to consider. We keep these videos brief and succinct, and of course, the video allows the clients to watch and re-watch, which is often helpful for couples with busy schedules.

Our educational material is constantly being created and evolving. As part of our ongoing content creation plan, we record and produce a short weekly YouTube video of two to five minutes. This weekly video is sent to our entire client database via email and shared via our social networks. If the content is quite topical and newsworthy, we will often have the video re-purposed into a press release for distribution to our local newspapers.

We are firm believers in being in front of our clients regularly, and providing helpful and current educational information. While we still run traditional face-to-face seminars, which many of our clients enjoy as a social opportunity, all our presentations are now recorded as webinars and circulated amongst our network.

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

Latest FPRJ issue available

The second issue of the Financial Planning Research Journal (FPRJ) for 2017 has been published and is now available online.

The current issue of the Financial Planning research Journal (FPRJ) – Volume 3, Issue 2, 2017 – includes topics ranging from: strategies for life cycle investments, responding to overconfidence in clients, customer intentions to use financial planners for retirement planning, through to equity holdings of baby boomers.

A summary of an article regarding consumers of financial advice in New Zealand is provided below from author Dr Janine Scott of Massey University, New Zealand.

Consumers of financial advice in New Zealand

In New Zealand, trust and confidence in financial professionals has diminished within the past few years but the need for professional advice is growing, despite the complexity and additional cost of giving and providing financial advice in New Zealand over time.

The *Financial Advisers Act 2008* (FAA) was intended to promote higher standards of care for professionals delivering financial advice. Moreover, a primary goal of the Act was to foster confidence and promote professionalism within the financial advice field. This legislation has been in a review phase over the past few years.

Less than 10 per cent of New Zealanders seek a financial adviser for professional advice. Financial advice is primarily around insurance needs and investment planning, and consumers turning to family and friends before considering or going to a financial professional, is consistent with adviser use outside of New Zealand.

At present, there are primarily three types of advisers in New Zealand: Qualifying Financial Entities (QFEs), Registered Financial Advisers (RFAs) and Authorised Financial Advisers (AFAs). The type of adviser depends on:

- Type of client – retail or wholesale;
- The nature of the advice – if advice is personalised or general; and
- Types of products involved – investment related or not.

As part of the study discussed in the article, a survey was developed for consumers of financial advice in New Zealand. Clients of financial advisers were asked about their choice of financial adviser, their experience of financial advice, their view of the 2008 FAA, in addition to a set of demographic questions.

Survey results revealed that clients of AFAs with a CERTIFIED FINANCIAL PLANNER® designation (the only group of advisers who currently have to meet minimum education and professional development requirements) are wealthier, older and possess more education.

RFAs are not bound by any education standards. Clients of RFAs are also older, fall within the lower income bracket (below NZ$50,000) and are less educated.

Education and age has been demonstrated to influence the perceived value of using a financial intermediary.

The majority of respondents who seek advice from an RFA cite retirement planning and investment services as the primary areas for receiving advice on. This is troubling, as RFAs are limited in the advice they can give, pertaining to financial products and services.

It was also interesting to note that clients did not see a change in their client-adviser relationship as a result of the review of the FAA.

If financial advisers are not upfront or fail to clearly communicate the scope of services to clients, which includes the products they are qualified to provide advice on, this issue will continue to hinder the growth of professional financial advice in New Zealand.

Promoting higher and more uniform financial adviser education standards is necessary for professional growth and better public perception.

Moving towards a uniform and higher set of education standards for all advisers may lessen public confusion, such as requiring a degree qualification within a certain timeframe like in Australia.

As new and younger entrants come into the adviser space worldwide, this seems like a positive next step in New Zealand.

To read the report in full, go to: www.griffith.edu.au/business-government/griffith-business-school/departments/department-accounting-finance-economics/research/financial-planning-research-journal/current-edition

White papers address FASEA requirements

Ben Marshan CFP® LRS® talks to Jayson Forrest about the three latest white papers the FPA has submitted to FASEA regarding the profession's education framework.

The FPA has completed three white papers for the professional standards and education framework, concerning the new standards that will be set by the Financial Adviser Standards and Ethics Authority (FASEA).

FASEA, which was set up earlier this year, is responsible for setting each of the standards in relation to curriculum, approving courses, existing planner transition, setting and administering an examination, CPD, a new code of ethics, and designing a professional year for new financial planners.

The FPA's three white papers are on the education framework, the planner examination and CPD.

Education framework

The FPA's Head of Policy and Government Relations, Ben Marshan CFP® LRS®, confirmed that the FPA has completed its white papers to guide the FPA in consultations with FASEA around the degree and degree equivalency requirements for the profession. The FPA has two main recommendations, centred around the education framework and degree equivalency.

Education framework

For the profession's degree requirements, the FPA is recommending that FASEA adopt the Financial Planning Education Council's (FPEC) curriculum, as well as FPEC's framework for approving education courses and acknowledging the tertiary courses that have already been approved by FPEC.

"This recommendation means that FASEA doesn't have to start from scratch in terms of developing education standards for the profession. Instead, it can take what the FPA and universities have been working on to build a curriculum and courses for the profession that are robust," Marshan said.

However, he added there was a risk to the profession, and particularly to students who are currently enrolled in FPEC approved courses, that if FASEA decided to build a new education framework from scratch, then potentially, there would be no students in an approved course who could become a financial planner before 2022.

Ben Marshan

"So, that means there will be a three year lag on anybody new coming into the profession," Marshan said. "That's something FASEA needs to consider."

100 point plan

As part of its education white paper, the FPA has also outlined its '100 point plan', where existing planners can bridge their education requirements to Australian Qualification Frameworks (AQF) Level 7 – Bachelor degree or equivalent (see article on p15 about AQF). The '100 point plan' is an administration process based on the units of study that a financial planner has completed. This plan will enable planners to 'make up' further units of study to meet FASEA's expected education requirements for the profession.

"This 100 point plan will take in a planner's existing qualifications and designations, such as CFP® Certification, DFP, Bachelors and Masters degree, as well as continuing professional development," Marshan said.

"By considering a planner's current qualifications, professional designations and CPD, and the points allocated towards a full

Fintech and the advice process

Ben Marshan has confirmed that at this year's FPA Professional Congress, the FPA will be releasing a white paper on how to build financial technology (fintech) into the advice process, making it more efficient and engaging for the client.

This white paper will also include a list of fintech and technology providers/services that planners can look at in relation to the advice process within their business.

The FPA will also be presenting a workshop at Congress – 'The power of technology and innovation in delivering advice' – where it will demonstrate the potential for technology to gather and analyse a planner's clients' needs, deliver dynamic advice, improve efficiency and compliance, and enable planners to provide greater client-centric service.

The FPA will also showcase its new technology resource hub at Congress.

degree under AQF, a planner can see if they have the necessary points that take them to the equivalent of a degree, or what bridging courses are required for them to undertake, without them actually having to do a degree."

For example, CFPs who have completed CFP 2-4 are eligible for advanced standing and credit towards FPEC approved Master of Financial Planning postgraduate programs at AQF Level 9.

Exam

The second white paper the FPA has developed relates to the proposed examination that planners will need to take. Marshan confirmed the FPA is recommending a multiple choice exam that takes up to three hours to complete.

"The FPA believes the focus of this exam will primarily be on compliance, with possibly some legislation and regulation included. The FPA believes that the purpose of this exam is to provide consumers with reassurance that the planner they are seeing is up-to-date with their best interest obligations."

CPD policy

Finally, the FPA's third white paper concerns CPD, in which it has recommended that FASEA adopt the FPA's CPD policy as part of its framework.

"Most CPD policies are industry-based, whereas the FPA CPD policy has been designed for the profession. It focuses on professional skills and professional knowledge," Marshan said. "We have recommended 30 hours of CPD per year, with 10 per cent (three hours) of that being in ethics."

AQF: What is it?

The Australian Qualifications Framework (AQF) is the national policy for regulated qualifications in Australian education and training. It incorporates the qualifications from each education and training sector into a single comprehensive national qualifications framework.

The AQF provides an integrated policy that comprises:

- the learning outcomes for each AQF level and qualification type;
- the specifications for the application of the AQF in the accreditation and development of qualifications;
- the policy requirements for issuing AQF qualifications;
- the policy requirements for qualification linkages and student pathways;
- AQF qualifications and qualification pathways;
- the policy requirements for the addition or removal of qualification types in the AQF; and
- the definitions of the terminology used in the policy.

One of the key objectives of the AQF is to facilitate pathways to, and through, formal qualifications.

There are 10 levels under the AQF, ranging from Level 1 – Certificate 1, to Level 10 – Doctoral Degree. Most financial planners will fit between Level 5 (Diploma), Level 6 (Advanced Diploma, Associate Degree), Level 7 (Bachelor Degree), Level 8 (Bachelor Honours Degree, Graduate Certificate, Graduate Diploma) and Level 9 (Masters Degree).

The FPA's Ben Marshan confirmed that CFPs who have completed CFP 2-4 are eligible for advanced standing and credit towards FPEC approved Master of Financial Planning postgraduate programs at AQF Level 9.

Committing to saving future money, rather than reducing spending now, is a great idea that actually works. It's all about how you approach the psychology of money.

Unlocking the psychology of money

Acclaimed London-based psychologist, writer and broadcaster, Claudia Hammond, will share some compelling insights and research on the psychology of money at this year's FPA Professionals Congress. She talks to Jayson Forrest about how we can all improve our spending habits.

Did you know it was often easier to 'trick' somebody into saving more than having a planned, rational discussion with them about the pros and cons of saving more for their future spending needs?

It's a ploy that accomplished psychologist and behavioural finance expert, Claudia Hammond knows only too well. This London-based expert will be on hand to share her tips with delegates at this year's FPA Professionals Congress, on how to use psychology to better understand your clients and promote stronger financial behaviour with them.

"Our relationship with money is far more complex than we might think. We're not always good at knowing how to use money and how to make the best decisions about it," Claudia says. "I will be sharing the latest research - from psychology, neuroscience and sociology - to look at the things we can do differently in our approach to money, and so, avoid some of the mistakes and assumptions we might be making about it."

Claudia believes that financial planners are well positioned, as trusted professionals, to educate and encourage a stronger culture of fiscal discipline with their clients, and the key to unlocking this is psychology.

"We don't always make the best decisions when it comes to prices and the cost of items. We all tend to think we're better than others when it comes to spotting good deals, just in the same way that most of us think that we're better drivers. But, statistically, we know that's not the case. And so, it's the same with money," Claudia says.

"A common cognitive mistake we make is what's called the 'endowment effect'. It is well established that we over-value things that we already own. So, if we're going to sell something that we own, we want to get more for it than it's probably worth. And this tends to mean that people want to hold onto their investments and sell them for more than is realistic. It's behavioural finance."

Another cognitive mistake that Claudia identifies is 'loss aversion'.

"We all hate making losses. So, we go to a lot more trouble to avoid a loss than to get a gain. This is where financial planners, by understanding client psychology, can change the behavioural approach of their clients to finance," she says. "When you talk to your clients about risk, it's also important to talk to them about their attitude and aversion to loss."

Claudia will be drawing upon the latest research findings on behavioural finance and loss aversion in her presentation, and will explain how planners can use this research to better manage the financial expectations of their clients.

And there's also 'relative thinking' that Claudia will discuss.

"Behaviourally, we go to a lot more effort to try and get a good discount on something that is cheaper than something that's expensive, because we always look at discounts as a percentage of the whole thing," she says.

"So, if something costs $60 and we can save $20 on that, then we are pleased by it. But we don't bother saving $20 on something that costs $500 or $1,000, like a holiday. We don't bother trying to save that amount, even though every $1 saved counts."

Continues on page 18

Your Speaker

Claudia Hammond is an award-winning broadcaster, writer and psychology lecturer. She is the presenter of *All in the Mind & Mind Changers* on BBC Radio 4 and *Health Check* on BBC World Service Radio and BBC World News TV. Claudia is a columnist for BBC.com and regularly appears on *Impact* on BBC World News to discuss research in psychology.

Claudia is on the part-time faculty at Boston University's London base, where she lectures in health and social psychology. She has just completed a 22-month residency at the Wellcome Collection as Associate Director of Hubbub.

She is the author of three psychology books – *Emotional Rollercoaster: a journey through the science of feelings* and *Time Warped: Unlocking the mysteries of time perception*. Her latest book is *Mind over Money: the psychology of money and how to use it better.*

Claudia will be presenting the second keynote presentation at the FPA Professionals Congress on Friday 24 November at 8:30am.

She will share her insights on the psychology of money and how to use it better in a live on stage interview with *Money Magazine* editor, **Effie Zahos**.

Another interesting aspect in relation to financial planning that Claudia will expand upon is people's attitude to 'saving'.

"There's the 'budget fallacy', where we think that in the future we will earn more and save more, and we will be better at spending less. But, in fact, there's no reason why you'll suddenly get better at saving or suddenly get better at spending less, if you haven't already changed your practices around that," Claudia says.

"So, it's about changing people's attitudes towards what they want to save and how much they think they should save in the future. Some people think of the future as being much further away than other people do. So, there's this perception factor to deal with."

"By better understanding the psychology of money, practitioners will be able to better help their clients make disciplined decisions about their financial future."

Claudia will share some subtle 'tricks' that planners can use to deal with this perception factor that will help change the way clients view the future in terms of their spending and saving habits.

Save more tomorrow

One such 'trick' is to break down target periods. Claudia explains: "If your client is going to retire in 10 years time, you can get your client to think of this period in terms of retiring in 3,652 days, instead of 10 years. By breaking down target periods into smaller measurements, in this case - days, it feels as if the end period is so much closer than using larger periods of time, like years.

"So, there are lots of ways that planners can reframe situations to make their clients think differently."

A clever savings experiment done by American economist and behavioural finance expert, Richard Thaler, revolves around a plan where a person commits to saving more each time they receive a pay rise in the future, because then they are committing future money rather than money now.

Thaler believes nobody wants to have less money to spend now, but will behave differently when they receive a pay rise, as saving a little of this extra money doesn't seem like a loss.

Thaler says a lot of behavioural finance issues come back to 'loss aversion', so by making things feel like it's not a loss, is a great way of changing the behaviours of clients towards saving.

According to Claudia, Thaler designed a very clever savings plan called 'Save More Tomorrow', where people commit to saving a certain percentage each time they have a future pay rise.

The concept is rather straightforward – people commit to saving most of next year's pay rise or salary increase, instead of cutting their spending now. The simple elegance of this plan is backed by a number of important behavioural finance concepts, including aversion to a loss of current lifestyle and taking advantage of people's tendency towards exaggerated discounting to make (future) saving less painful.

While there are some real challenges to implementing a 'Save More Tomorrow' approach, Thaler believes it does raise the question of whether the traditional approaches to retirement advice, like 'save more and spend less' or 'save X per cent of your income every year', are due for a radical rethinking.

According to Thaler, by focusing on saving more tomorrow – and by not spending more tomorrow – planners can actually find a better path to guide today's future retirees towards better financial success.

"The 'Save More Tomorrow' plan has been very successful and many people have managed to save so much more by implementing this plan, than they managed

previously. So, committing to saving future money, rather than reducing spending now, is a great idea that actually works," Claudia says. "It's all about how you approach the psychology of money."

Behaviour

The research Claudia will draw upon in her presentation supports the presumption that people respond differently to money and saving - whether that be for retirement, a 'big ticket' purchase, or the kids' education.

She will explain why some people do indeed behave strangely around money, and what practitioners can do to improve their clients' relationship with it.

"It's definitely the case that some people are just better at using their money than others," Claudia says. "We tend to be poor at some of the decisions we make. We think we're making good decisions, when learnt behaviours prevent us from doing that.

"It's also the case that people have very different attitudes to money. Some of these attitudes will come from what people first learn about money - whether it's learnt behaviour from their parents at home, at school or in the workplace. We have very different ideas as to what counts as a necessity and what counts as discretionary. This learnt behaviour all comes into play as to how people save, spend or invest their money in the future," Claudia says.

"So, this is where financial planners can help clients to look at their individual psychology and attitude to money, and so help their clients to work out what is best for them, enabling them to plan for their own financial wellbeing."

Outtakes

Claudia is confident that delegates attending her session at this year's Congress will walk away with a number of key psychological and behavioural finance learnings that they will be able to implement within their own practices.

"I will be sharing a number of practical tips based on evidence and research, that will allow planners to view money differently and so, make better decisions about it themselves. This will assist them in their discussions with clients when developing and implementing financial plans," Claudia says.

"Ultimately, by better understanding the psychology of money, practitioners will be able to better help their clients make disciplined decisions about their financial future."

Leading edge

Opening this year's Congress will be futurist, strategist and global nomad, **Mike Walsh**, who will explore how emerging technologies are changing the way we live, work and interact.

Supporting Mike, thought leader and Oxford University academic, **Dr Daniel Susskind**, will share his views on the future of the financial planning profession.

And the closing keynote session on Friday will feature a dynamic conversation involving three influential Australian couples, who will discuss how partnerships are built on shared values, personal goals and providing support. The couples include:

Waleed Aly and **Dr Susan Carland** – Champions of diversity and social justice, speaking out on polarising issues such as religion, politics, and feminism and surviving in an ever changing world.

Paul and **Dr Tami Roos –**
Dr Tami Roos is a long-term advocate and practitioner of meditation and mindfulness as an essential part of our wellbeing and Paul is a legendary AFL coach, who has led and inspired teams on the field and in life.

Paul and **Alicia West –**
Paul and Alicia realised their dream of running their own sustainable farm, showcasing real food and promoting community and regional living when Paul hosted the television program, *River Cottage Australia*.

For more information on this year's FPA Professionals Congress, go to **fpacongress.com.au**

Congress Workshop Program

*Industry experts and financial planning professionals feature in this year's program of 24 workshops across four dedicated workshop streams – **Evolve, Engage, Grow** and **Inspire.** Each session is accredited with 1 CPD hour. The following is a preview of the sessions.*

EVOLVE

Technical capability and critical thinking in financial planning specialty areas.

Making sense of the 2017 superannuation changes

SPEAKER: David Busoli, Executive Manager, SMSF Education, SuperConcepts

TIME: 11:20am-12:20pm, Thurs 23 November

This workshop will bolster your existing knowledge of the 2017 super changes and consider the higher level repercussions of the changes to contributions: from concessional to personal injury settlements, salary sacrifice, the CGT small business concessions and more.

Exploring your best interest duty in practice

SPEAKER: Tony Sandercock CFP®, Owner, wetalkmoney

TIME: 1:30pm-2:30pm, Thurs 23 November

Your greatest asset is trust. This workshop will apply Section 961B best interest duty to sample SOAs and discuss the conflicts of interest that could expose you to 'putting your own interests ahead of your clients'.

Designing alternative investment strategies to superannuation

SPEAKERS: Chhai Ung, Director, Banyan Tree Investment Group; and **Cristean Yazbeck**, Managing Director, Hamilton Blackstone Lawyers

TIME: 2:40pm-3:40pm, Thurs 23 November

Is superannuation the be all and end all investment structure and if not, what are the alternatives? This workshop will consider alternative strategies and structures to maximise your clients' investment opportunities.

Estate planning: The transfer of wealth post July 2017

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

TIME: 4:30pm-5:30pm, Thurs 23 November

As your clients' wealth accumulates, good estate planning is an imperative. This workshop will be hands-on, using cases to examine the use of testamentary trusts, reversionary pensions, binding/non-binding nominations and more.

The rise and rise of aged care

SPEAKERS: Louise Biti, Director, Aged Care Steps; and **Jacqueline Hayes**, Advice and Compliance Manager, Aged Care Steps

TIME: 9:40am-10:40am, Friday 24 November

This workshop covers the essentials of aged care, including funding, housing options and fees. It will also cover Centrelink ramifications, the rules applying to aged and home care, and the strategies to assist clients in aged care transition.

Risk insurance: The stakes are high

SPEAKERS: Mark Everingham CFP® LRS® AEPS®, Managing Director, Personal Risk Professionals; **Col Fullagar**, Principal, Integrity Resolutions; and **Ian Gray**, Proprietor, Ian Gray Solicitor

TIME: 11am-12pm, Friday 24 November

This workshop will examine the differences in definitions between personal and group cover. You'll also compare and assess the different covers and consider current best practices in buy-sell arrangements, where these insurances should be held, and when to engage a lawyer and accountant.

ENGAGE

Leadership. Engaging and developing your clients and staff.

How society and business will evolve

SPEAKER: Bernard Salt AM, Managing Director, The Demographics Group

TIME: 11:20am-12:20pm, Thurs 23 November

Today, the boundaries between society and business are blurred. Work is accessed 24/7, just as personal lives intermingle with work time. In the future, there will be no boundaries, as business and society fuse into a single way of life. What does this mean for your business?

Make visual agreements to create more meaning

SPEAKER: Robert de Rooy, Founder, Comic Contracts

TIME: 1:30pm-2:30pm, Thurs 23 November

Learn the power of making agreements visual, to create more meaning and better understanding. Agreements or contracts can be an opportunity to build a good relationship. They don't have to be walls of text. Visualisation can make agreements easy to understand and, in particular, help practitioners to bridge the gap with vulnerable clients.

Thriving in the tough conversations

SPEAKER: Alison Hill, Psychologist and behavioural expert

TIME: 2:40pm-3:40pm, Thurs 23 November

In this session, you'll explore tools to depersonalise tough feedback, strategies for overcoming resistance and defensiveness, and tips for managing your own state amongst the busyness of work.

Being fearless in ethical decision-making

SPEAKER: Omer Soker, Chief Executive Officer, The Ethics of Success/The Future of Associations

TIME: 4:30pm-5:30pm, Thurs 23 November

Ethical decision-making and leadership creates trust and drives performance, and gives a powerful competitive advantage. This workshop will challenge old perceptions, and give you values-based insights to attract and engage with more clients.

Managing conflict

SPEAKERS: The Decent People, Improvisation performance coaches

TIME: 9:40am-10:40am, Friday 24 November

Conflict, or the perception that it is present, can destroy trust and productivity. You need strong values to engender a positive and open mindset in your organisation. Learn to collaborate and communicate effectively using improvisation techniques. 'Improv' is not only about spontaneous performances. This interactive session will give a set of guidelines and principles for accelerating creativity, workplace relationships and mental agility.

Be the digital boss of your marketing and social media

SPEAKERS: Adele Martin CFP®, Managing Director, Firefly Wealth; **Adrian Patty** AFP®, Director and Financial Adviser, AP Financial Solutions and Spark Professional; and **Corey Wastle** CFP®, Financial Adviser and Co-founder, Verse Wealth

TIME: 11am-12pm, Friday 24 November

Hear first-hand experiences and tips from other financial planners who are embracing social media, technology and marketing within their businesses. Be inspired by innovative techniques around client communication and other opportunities in which to build your business.

GROW

Best Practice. Improving the operational side of your practice.

Ethics of inter-generational advice

SPEAKER: Dr June Smith, Lead Ombudsman – Investments and Advice, Financial Ombudsman Service Australia

TIME: 11:20am-12:20pm, Thurs 23 November

The facilitator will present case studies demonstrating the ethical dilemmas financial planners will come across when giving inter-generational advice to their clients. These case studies will highlight the issues that must be considered when providing inter-generational advice.

The power of technology and innovation in delivering advice

SPEAKERS: Ben Marshan CFP® LRS®, Head of Policy and Government Relations, FPA; **Caroline Bell** CFP®, Principal, Summerhill Financial Services; and **Adrian Patty** AFP®, Director and Financial Adviser, AP Financial Solutions and Spark Professional

TIME: 1:30pm-2:30pm, Thurs 23 November

There are powerful and affordable tools available to acquire and service your clients. But the challenge is - are you using these tools effectively and are they enabling you to deliver quality advice? This workshop will demonstrate the potential for technology to gather and analyse your clients' needs, deliver dynamic advice, improve efficiency and compliance, and enable you to provide greater client-centric service. The FPA will also showcase its new technology resource matrix, an innovative financial planning enabler.

Congress Workshop Program



Panel discussion: Practice owners share their winning business ideas

SPEAKERS: Michelle Tate-Lovery CFP®, Managing Director/Principal Adviser, Unified Financial Services; **Pippa Elliott** CFP®, Director, Momentum Planning; **Anne Graham** CFP® LRS®, CEO/Financial Planner, Story Wealth Management

TIME: 2:40pm-3:40pm, Thurs 23 November

Practice owners share the best and worst decisions they have made in building and adapting their financial planning practices within the shifting and challenging profession. This session will facilitate open discussion and the sharing of ordeals, expertise and experiences.

Being compliant and efficient: How hard can it be?

SPEAKERS: Kaori Brown CFP®, Associate Adviser, Macquarie Group; and **Rhett Das**, Director, Integrity Compliance

TIME: 4:30pm-5:30pm, Thurs 23 November

Balancing the priorities of compliance and efficiency can be a challenge. What should be included and excluded from an SOA? What's the difference between SOA vs ROA? We address these issues and the importance of improving the communication lines between you and your paraplanner.

Latest updates from the FPA

SPEAKER: Ben Marshan CFP® LRS®, Head of Policy/ Government Relations, FPA

TIME: 9:40am-10:40am, Friday 24 November

Receive up-to-date information on the FPA, Government and regulator activities. This session will provide details of the FASEA education standards, guidelines and timeframes around education, guidance on the Professional Year and exam, and the Tax Practitioners Board re-registration timeframe.

Client engagement: Putting emotional intelligence to work

SPEAKER: Dr Helen Parker, Lecturer and Unit of Study Co-ordinator, The University of Sydney

TIME: 11am-12pm, Friday 24 November

This workshop will provide solutions to help you take your client relationships to the next level; humanising planning and risk advice processes, and how to have effective client conversations.

INSPIRE

Get motivated and nurture your mind and body.

Getting your direction clear

SPEAKER: Dr Louise Mahler, Communications specialist

TIME: 11:20am-12:20pm, Thurs 23 November

Get serious about how you use conscious direction to build trust, feel in control and be in control of any situation. Most of us are 'misdirecting' all the time without awareness or purpose, and the result is often confusion and lack of engagement. Learn to be aware and understand the power of gesture, eye and body positioning.

The science and practice of mindfulness

SPEAKER: Dr Craig Hassed, Associate Professor and Mindfulness Co-ordinator, Monash University

TIME: 1:30pm-2:30pm, Thurs 23 November

Being able to effectively engage and sustain attention is a pre-requisite for virtually anything we want to do in life. As such, mindfulness is a powerful life skill to master. This practical and experiential workshop will explore the science, philosophy and practice of mindfulness across a wide variety of settings in personal and professional life.

Becoming pressure proof

SPEAKER: Michael Licenblat, Resilience expert

TIME: 2:40pm-3:40pm, Thurs 23 November

In the current business climate, we are under great stress to deliver more, in less time, with fewer resources. A major key to success is being able to flow with change, adapt to pressure and stay highly productive. In this session, you'll learn how to build resilience, bounce back from challenges and setbacks, and perform better under pressure.

FOR MORE INFORMATION, GO TO FPACONGRESS.COM.AU

Program subject to changes. Times and events may vary slightly.

Earn up to **14** CPD hours

Building your career on strong foundations

SPEAKER: Brennon Dowrick, Elite gymnast and motivation coach

TIME: 4:30pm-5:30pm, Thurs 23 November

Success in life and business is something that is desirable to most people. But how often do we dream, then not do anything about it? Get motivated to set your goals high and take the steps to reach that peak.

Gain energy, improve productivity and achieve balance

SPEAKER: Michele Chevalley Hedge, Modern day nutritionist

TIME: 9:40am-10:40am, Friday 24 November

Everyone wants to be healthy but most don't want an extreme diet, a costly approach or to be preached to. Research is unveiling how quality nutrition can not only improve our physical body, energy and sleep, but also our brain function, memory and moods. Learn how to look after yourself in your busy, corporate life.

Implementing ideas: Convert your learnings into action

SPEAKER: Nils Vesk, Innovation researcher

TIME: 11am-12pm, Friday 24 November

Eighty per cent of what we learn at a conference is lost within 24-48 hours, unless we can review and apply what we've learnt. This session is designed to 'recap and execute' what you've learnt at Congress. To maximise your Congress ROI, get clear about what you've been learning, what you want to implement, and learn the steps you'll need to take to execute.

Delegates can pre-select their workshops. To avoid missing out, visit fpacongress.com.au

PROGRAM OVERVIEW

Time	Wednesday, 22 November
2pm-5pm	FPA Professional Practice workshop
3pm-5pm	Paraplanner workshop
5:30pm	Welcome reception and Expo opening
Time	**Thursday, 23 November**
7:30am	Women in Financial Planning breakfast / Networking breakfast
9:00am	**Opening Keynote Session & FPA Awards presentation**
10:40am	Morning tea
11:20am	Workshop 1: **Evolve** / **Engage** / **Grow** / **Inspire**
12:20pm	Lunch
1:30pm	Workshop 2: **Evolve** / **Engage** / **Grow** / **Inspire**
2:40pm	Workshop 3: **Evolve** / **Engage** / **Grow** / **Inspire**
3:50pm	Afternoon Tea
4:30pm	Workshop 4: **Evolve** / **Engage** / **Grow** / **Inspire**
6:30pm	**MONA: A Future2 Celebration**
Time	**Friday, 24 November**
7:30am	Networking breakfast
8:30am	Keynote Session 2
9:40am	Workshop 5: **Evolve** / **Engage** / **Grow** / **Inspire**
10:40am	Morning tea
11:00am	Workshop 6: **Evolve** / **Engage** / **Grow** / **Inspire**
12:00pm	Lunch
1:00pm	**Closing Keynote Session**
2:30pm	Congress close

Program subject to changes.
Times and events may vary slightly.

Top 5 trends in annuities

Challenger's Andrew Lowe identifies the top five trends in annuities and discusses how these trends are impacting financial planners and their clients. He talks to Jayson Forrest.

1 Strategies for key retirement risks

The first trend that Challenger's Head of Technical Services, Andrew Lowe identifies in the annuities market is the development of product and planning strategies for addressing key retirement risks, in particular, the risks of: sequencing, longevity and inflation.

"Planners know their clients can live a potentially long time in retirement and want to know the best ways of making that cash last longer for them. Specifically, how do you make a client's income last for as long as they do," Lowe says. "This is a key consideration that planners face every day with their clients."

This challenge of ensuring that a client's income lasts for their lifetime, ties in neatly with the different ways planners are using annuities today. But when it comes to lifetime income, Lowe believes annuities are only part of the solution to a broader and more comprehensive approach to retirement income.

"So, irrespective of market volatility, planners can at least partly eliminate the risk associated with long life via annuities, because they can meet a certain level of income that a client might need in retirement. And for a lot of clients, that may be all of their income," he says.

"We come across many clients who want relatively modest levels of income in retirement. But, they are looking to make sure that if their assets run out, there is a safeguard that kicks in over and above the Age Pension. Certainly, that partial allocation can work quite well to address longevity risk."

2 Retirement product blending

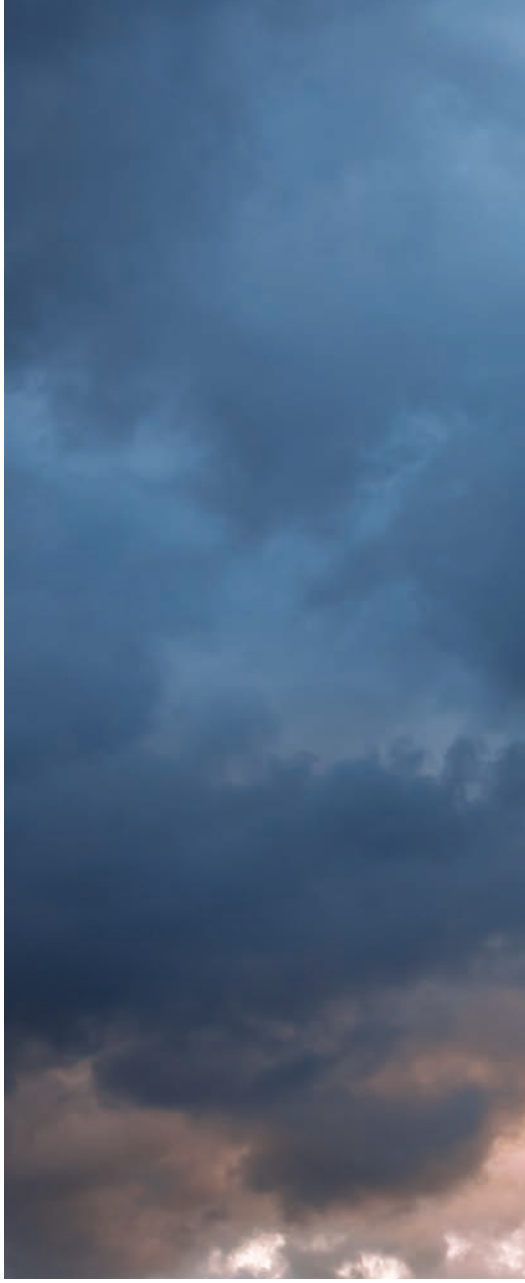
Lowe says he is also seeing an increasing number of planners blending annuities in with account-based pensions, non-superannuation assets and other retirement assets, to develop more holistic retirement solutions for clients.

"Layering strategies are also applicable for addressing key retirement risks," he says. "This includes how to integrate different sources of income in retirement, enabling clients to build up their level of income.

"In fact, one way of addressing longevity risk is building a layer of essential income to meet those crucial spending requirements. Effectively, that layer can constitute a variety of income streams in retirement.

"So, some planners will use a layer of Age Pension that a client will either qualify for immediately or at a later point. Another layer might be defined benefit income streams. And if a client doesn't have access to other guaranteed income sources, then they could use a layer of guaranteed income from an annuity. That's a layer that planners can build in for their clients."

Colonial First State (CFS) General Manager, Product and Investments, Peter Chun says CFS recorded an 83 per cent increase in lifetime annuity sales in the last financial year. He says this demonstrates "the growing popularity of 'income layering strategies', which combine annuities with account-based pensions and the Age Pension to meet the retirement needs of clients".



Indeed, with $850 million of annuities already under administration at CFS at the end of July 2017, it has recently included deferred lifetime annuities on both FirstChoice and FirstWrap as part of its range of retirement solutions to protect the financial wellbeing of retirees.

"We are working closely with our partners to grow our product range and now offer deferred lifetime annuities," Chun says. "We're expecting to see strong interest from planners in these products as customers begin to take greater consideration of longevity risk."

Lowe says planners today have a range of products and strategies available to them that will enable them to address the specific income needs of their clients.

"Typically, for the majority of a client's assets, a planner will apply various forms of 'retirement income philosophies' to make sure there is stability of income, and there is a reduced chance of running out of capital. This includes adopting a 'bucketing' approach, with the residual assets sitting, for example, in an account-based pension.

"So, these are strategies whereby a planner will allocate an amount to cash, to defensive assets and to growth assets. The planner will then manage the drawdowns out of that total portfolio with a view to reducing market risk for their client."

Lowe confirms he is seeing a lot of modelling by planners around different combinations of strategies.

"For example, if a client has $800,000 but only $150,000 of this amount is sitting in a lifetime annuity, that leaves $650,000 to invest in a variety of different strategies. And while that presents opportunities for the client to grow their income, planners are also mindful of how much they can afford to withdraw from these investment strategies for their clients.

"So, this concept of safe withdrawal and safe spending rates for clients, and what to sell to make income payments last, are the types of conversations that are very common amongst planners today."

3 Legislative change

The third trend Lowe identifies is using annuities as a tactical response to legislative change.

"The retirement incomes environment has changed quite a bit for different kinds of income streams over time. So, the use of annuities and other types of income streams has fluctuated in response to legislative change by governments," he says.

"If you go back pre-2004, there were 100 per cent asset test exempt income streams, then there were 50 per cent asset test exempt income streams. And certainly, legislative changes to the Age Pension assets test from 1 January 2017, has renewed interest in strategies that provide some form of efficient social security interaction.

"For example, something like the doubling of the taper rate, from $1.50 per fortnight per $1,000 of assets reduction in Age Pension to $3.00 per fortnight, has meant there is an appropriate consideration given to strategies that can help with changing the level of

Continues on page 26

assessable assets. In this respect, one of the things that planners have available to them for their clients are lifetime annuities."

Lowe believes it's this prospect of continued legislative change that is driving planner interest in different types of retirement products and strategies.

"On 1 January this year, it was the Age Pension assets test, then on 1 July, it was the availability of enhanced income streams. Indeed, there has been a lot of product come to market there, so planners need to continue to watch this space," he says.

"The availability of products like deferred lifetime annuities and group self-annuitisation arrangements (see below) are going to drive considerable interest in different types of income streams going forward.

"So, tactical response to legislative change and adjusting retirement income strategies in light of legislative change, is a major consideration for retirement income products."

4 Platform availability

According to Lowe, planners today have much easier access to annuities than was previously the case. He identifies this as being a significant trend in the annuities space.

"The availability of annuities via platforms has been a game-changer in terms of planners being able to access guaranteed retirement income products for their clients.

"Planners have typically had APLs that have allowed them to use guaranteed lifetime income products over the past decade, but the scope of platforms offering them now makes it much easier to blend a part allocation into a lifetime annuity, without planners having to step outside the reporting mechanism and advice tools they are using for clients," Lowe says.

"So, the availability of annuities via platforms like FirstChoice, FirstWrap and now AMP, and the prospect of more on the horizon, well, that's game changing for planners in terms of ease of access, ease of implementation and ease of understanding for clients through simplicity of reporting."

5 Aged care needs and requirements

Lowe believes that while aged care is not entirely within the retirement incomes 'sweet spot', it is still an area of significant interest to retirees and their families.

"The major concern of clients about entering aged care, is in fact, the care they receive. Underpinning this is the issue of affordability. So, planners are looking at different ways of structuring a client's situation to ensure they can afford the sort of aged care they are wanting to receive."

Lowe says there are a number of different ways and strategies available to planners to help their clients achieve this. This includes the key decision of whether to retain the family home, with other strategies aimed at delivering income for aged care clients.

"And secondly, we see a lot of clients who are very cautious in terms of the investment risk they are prepared to take on. Estate planning and those types of issues also crop up as well. So, there are circumstances where the application of annuities to offset this 'risk', do fit into that 'sweet spot' for aged care clients."

Lowe specifically refers to term annuities and an aged care annuity that meets the specific requirements for satisfying the income concerns of aged care clients.

However, he emphasises that affordability remains the key issue for aged care clients.

"There is a significant perception amongst consumers that aged care is very expensive and might be unaffordable. But there are plenty of ways clients can structure their assets to ensure affordability, and that's where professional advice is absolutely vital for these clients," Lowe says.

Chun agrees: "In terms of retirement planning, it's vitally important that clients seek professional advice earlier in the process. And it's equally as important for planners to ensure that their clients re-engage with them throughout their retirement to review the appropriateness of longevity solutions."

DEFINITIONS

Deferred lifetime annuities

Deferred lifetime annuities (DLAs) are a form of lifetime annuity where income payments are delayed for a set amount of time. For example, a 65-year-old retiree may purchase a DLA that will provide a steady income stream after the retiree turns 85 and guarantee an income above that of the Age Pension.

DLAs may be attractive to retirees because the commitment of funds for a given income stream declines with the length of deferral. DLAs could be used to complement account-based pensions. Account-based pensions are more income-efficient when drawn down at a faster-than-minimum rate. Drawdowns can be structured so that the balance is exhausted, or close to exhausted, at the time a DLA begins to make payments.

Group self-annuitisation

In group self-annuitisation (GSA), participants contribute funds to a pool that is invested in financial assets. Regular payments from the pool are made to surviving members. Pooling mortality risk delivers higher income in retirement than an account-based pension that is drawn down at the minimum rate, while also providing significantly more protection against longevity risk.

GSAs allow pool members to share, but not completely eliminate, longevity risk and do not require capital to back guarantees. They can also be offered on a deferred basis like a DLA.

GSA income is not guaranteed, like annuity income, but it is expected to be higher due to the absence of capital requirements to back guarantees.

Income levels may be lower at older ages if, for example, the entire pool lives longer than expected. Members also lose flexible access to capital and are unable to bequeath residual assets.

Source: Financial System Inquiry, Retirement Income Products.

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

Key person cover for a business

BRENDAN BOWEN
BT

This article is worth
0.5 CPD HOURS

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INSURANCE

Includes
- Key person lump sum cover
- Key person income cover
- Business overheads cover
- Structure and taxation

No matter how small or large a business is, it will be exposed to a number of risks. These risks could relate to the economy, competition or changing consumer behaviour, and can be hard to control. However, one type of risk a business can have a degree of control over is people risk – that is, the financial impact to a business if a key person dies, becomes disabled or suffers a specific medical condition.

To protect itself against the temporary or permanent loss of a key person, a business can use what is commonly known as 'key person' insurance. This is distinct from buy/sell insurance in that it is concerned with protecting the business as an ongoing entity, as opposed to funding the transfer of business ownership.

The facts below remind us of just how risky life can be – and why insurance is an important consideration for many business owners.

- One in five families will be affected by the death of a parent, or a serious accident or illness that renders a parent unable to work[1].
- Cardiovascular disease claimed the lives of 45,392 Australians (nearly 30 per cent of all deaths) in 2015[2].
- One in two men and women are expected to be diagnosed with cancer before the age of 85[3].
- Almost two million adults aged between 25-64 have had a disability[4].

In this article, we will explore key person insurance as a means of protecting against these risks, including: lump sum cover for revenue and capital purposes, key person income cover for temporary incapacity, and business overheads insurance.

Who is a 'key person'?

A key person is someone who is critical to the financial wellbeing of a business through their continued association. Key people play an important role in generating the revenue for the business, and/or obtaining business loans.

Typical examples of key people include:

- a director, managing director or CEO;
- a partner in a partnership;
- an employee with a particular skill or technical expertise; and
- a senior sales manager.

There may also be occasions when an external supplier is considered a key person to a business.

Key person lump sum cover – revenue

The death or disablement of a key person could have a significant impact on the revenue of a business and therefore, its ability to meet its day-to-day expenses. If this happens, there are a number of ways that a business might consider replacing lost revenue:

- Use existing cash reserves, if any;
- Draw down from existing loan facilities;
- Sell some of the business assets; or
- Weather a period of reduced profit.

For many businesses, these options are sometimes simply not possible or too expensive. For these reasons, insurance cover often represents the only commercially viable solution.

Key person cover for revenue purposes provides a lump sum to the business for the replacement of the revenue lost in the months following the exit of the key person. It is normally established in the form of a Term Life, Total Permanent Disability (TPD) and/or Trauma insurance policy.

Case study

Anthony runs a small structural engineering firm, BluePrint Pty Ltd, which provides services to a number of corporate clients and councils. Gary is a key employee of the business and clients rely on him for his technical expertise in solving difficult design problems.

Anthony realises that Gary is critical to the immediate survival of his business and estimates that it would take him 12 months to find and train a suitable replacement if Gary died or became permanently disabled.

Furthermore, Anthony has estimated that if Gary were unable to work, the net profit of the business would fall by $200,000 per annum. This would place the business, and Anthony, under significant financial pressure.

What can Anthony do to protect his business?

Anthony sees his financial adviser and together they calculate the level of protection that Anthony's business will need:

Annual fall in net profit: $200,000
Cost to hire a replacement: $25,000
Cost to train a replacement: $25,000
Total insurance required: $250,000

Anthony establishes a Term Life and TPD policy over Gary's life for $250,000. The policy is owned by BluePrint Pty Ltd. If Gary dies or becomes permanently disabled, the insurance proceeds can be used to replace the fall in net profit of $200,000 over the next 12 months, and cover the cost of finding and training a replacement for Gary.

Structure and taxation of key person revenue cover

Insurance policies that cover a key person for the purpose of protecting the business against a fall in revenue or sales are generally owned by the business entity or, for more complex arrangements, a trust (with the business entity as one of the beneficiaries of the trust). Business ownership is often the simplest method of ownership. Where a trust is used, the policy will normally serve a number of business needs, including debt reduction and even buy/sell funding.

With respect to taxation, the purpose of the cover will determine whether the premiums are tax deductible and how the proceeds are taxed. As a general rule, where the purpose of insurance is to protect the revenue of the business, through replacement of lost sales or provision for increased expenses, the premiums will be tax deductible and the proceeds will be assessed as income.

In circumstances where the business is expected to cease on the exit of the key person, an insurance policy is not considered to have a revenue replacement purpose and is therefore not generally tax deductible (see income tax ruling IT2434). This would commonly be seen in sole trader or one-person incorporated businesses.

If a business needs to insure the same person for a capital purpose, for example, for debt reduction, it could either establish a separate policy or cover both needs with the same policy.

By using a single policy, there can be greater flexibility when revenue and debt reduction needs fluctuate; however, only that portion of the premium which relates to revenue protection cover would be tax deductible. As a result, this approach to structuring is often seen as cumbersome.

Therefore, many advisers find it simpler to establish separate policies where both revenue and debt reduction needs exist. Depending on the policy features, the business may be able to increase the sum insured when revenue or debt reduction needs change, within certain limits but without additional underwriting.

Key person income cover

Traditionally, key person insurance cover in Australia has involved the use of lump sum insurance products, such as Term Life and TPD. Unfortunately, these policies do not typically address the risk of temporary disablement.

This is an important gap to acknowledge because a temporary disability is statistically more likely to occur than a permanent disability or death. The key person is also more likely to qualify for payment, as the definition under key person income cover is much more generous than the definition under TPD or death cover.

The absence of a key person due to temporary disablement can place a business under the same significant stress that occurs in the event of death or permanent disablement.

Often there is uncertainty as to when (or if) the key person will return, which makes it difficult for the business to make decisions about whether to hire and train a replacement, how to handle certain client relationships, and general business planning.

Key person income policies differ from the traditional business overheads policy in a number of important ways. Business overheads policies generally only provide cover for certain business expenses incurred during the period of disability. Key person income, on the other hand, provides a monthly benefit which can be used not only for fixed business expenses but also to cover lost revenue.

Continues on page 30

Structure and taxation of key person income cover

BT's Key Person Income policy must be owned by the business, and can be used to cover both key person owners and employees.

The policy is not available to cover sole traders, however, it could be used to cover the key employees of a sole trader.

Because the purpose of key person income insurance is to protect the revenue of the business, the premiums are likely to be tax deductible and the proceeds will be assessed as income.

Business overheads cover

Business overheads cover, also known as business expenses cover, allows a business to continue to pay its fixed expenses if one of the business owners becomes sick or injured.

This type of cover pays a monthly benefit to the business, in respect of its day-to-day fixed costs, generally for up to 12 months, if the insured person is disabled and is unable to work in the business at their full capacity.

Insurance policies covering business overheads are generally owned by the business entity, sole trader or partners (in the case of a partnership).

The premiums for business overheads policies are generally tax deductible, and the proceeds treated as assessable income to the business.

Key person lump sum cover – capital protection

At some point, many businesses will borrow money from a financial institution or a director. This may be to provide a business with capital for a major purchase or improvement, or simply to provide a source of working capital.

Such loans could include:

- a business overdraft;
- a secured loan from a bank; or
- a loan from a director.

On death, permanent disablement or a specified trauma event in respect of a key person, a business could experience financial difficulty and may find it hard to continue to meet all of its loan repayments – a default could result in a demand for a loan to be repaid in full. Alternatively, the lender may call in a loan if the key person was a guarantor or was specified in the loan agreement.

The purpose of debt reduction insurance is therefore two-fold: it is used to protect the business against its debts, but also to protect the guarantor and his/her estate against any claim over their personal assets.

Lump sum policies can also be used to protect the capital value of a business. For example, the loss of a key person could diminish the goodwill of the business or affect its credit rating. In the latter case, this could affect the ability of the business to secure credit lines or overdraft facilities. Key person insurance proceeds in these circumstances would give the business an alternative source of funding.

Providing clients advice on business insurance can reap significant rewards for the adviser who wants to specialise in this segment of the market.

How much insurance is needed?

For debt reduction policies, the appropriate amount of insurance will depend both on the business owner's requirements and the requirements of the lender. As a first step, it's important to understand the terms and conditions of the loan contract. For example, the lender may require a personal guarantee and on the death of the guarantor (if there is no substitute), the loan may need to be repaid in full.

The business owner will also need to consider the ability of the business to continue servicing the loan on the death or incapacity of the key person. They will need to decide whether to cover the whole loan facility or only the amount of the facility drawn.

The availability of insurance cover, from an underwriting perspective, will normally depend on a number of factors, including the size and type of the debt, and the credit rating of those debts. It will also depend on whether the borrowers/guarantors for the loan are jointly and severally liable for the debt, and the purpose of the loan – for example, was the loan used to purchase a business or non-business asset.

Finally, capital gains tax (CGT) may be payable on insurance proceeds (see below). In these circumstances, the business will need to consider grossing up the sum insured to account for this tax liability.

Structure and taxation of key person capital cover

Where the purpose of the insurance is to protect the capital of the business, such as to pay out an outstanding loan, the premium will generally not be tax deductible and the proceeds will not be treated as assessable income. CGT may apply to the proceeds depending on the ownership structure. CGT does not generally apply on term life proceeds, regardless of the ownership structure, unless ownership of the policy has previously changed and consideration was paid for that transfer (see ITAA 1997, Section 118-300).

CGT legislation applies differently to TPD and Trauma insurance proceeds. The CGT exemption in ITAA 1997, Section 118-37, only exempts proceeds on such policies from CGT when those proceeds are paid to the life insured, a relative or a trust (where a beneficiary of the trust is the life insured or a relative).

A company is neither of these entities, so when a company owns and receives the proceeds from a TPD or Trauma policy (and that policy is held for a capital purpose), CGT will generally apply.

To avoid this problem, it may be possible to have the TPD cover owned by the life insured, and establish a legal agreement (called a debt reduction agreement), which requires the life insured to pay the proceeds of the policy to the lender on behalf of the company. In this way, the CGT proceeds are not immediately subject to CGT, however, it's not without its potential complications.

Establishing a debt reduction arrangement can create a 'right of contribution', which entitles the insured to be reimbursed for the amount it has paid to the lender. Removing this right can itself create separate CGT consequences.

As an alternative, the insurance policy could be owned by a specifically drafted trust. In this arrangement, the insured would direct the trust to pay the lender on their behalf. While it may be possible to remove CGT consequences entirely by using such trusts, these arrangements can also give rise to negative outcomes, and therefore, require thorough legal and taxation advice.

Summary

Key person insurance is simple in principle – it is about protecting a business in the event of the temporary or permanent exit of the people that are critical to its ongoing success.

However, providing high quality advice in this area requires a good understanding of the fundamentals of tax structuring and, where required, referral to appropriately qualified taxation and legal professionals.

If executed correctly, providing clients with advice on business insurance can reap significant rewards for the adviser who wants to specialise in this underserviced segment of the market.

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

Footnotes

1. The LIFEWISE/NATSEM Underinsurance Report, February 2010.

2. Heart Foundation, www.heartfoundation.org.au/about-us/what-we-do/heart-disease-in-australia

3. Cancer Council, http://www.cancer.org.au/about-cancer/what-is-cancer/facts-and-figures.html

4. AIHW 2011. Australia's welfare 2011, Australia's welfare no. 10. Cat. no. AUS 142. Canberra: AIHW

QUESTIONS

1. Where a company owns a term life insurance policy on a key person for revenue purposes, the following tax treatment will apply to the insurance premiums and claim proceeds:

a. Premiums deductible; proceeds assessable income.

b. Premiums deductible; proceeds not assessable income.

c. Premiums not deductible; proceeds not assessable income.

d. Premiums not deductible; proceeds assessable income.

2. Where a company owns Term Life, TPD and Trauma policies on a key person for capital purposes, the following tax treatment will apply to the insurance premiums and claim proceeds:

a. Premiums deductible; CGT payable on TPD and Trauma proceeds only.

b. Premiums not deductible; all proceeds are tax-free.

c. Premiums not deductible; CGT payable on TPD and Trauma proceeds only.

d. Premiums are deductible; CGT payable on all proceeds.

3. Mia and Oscar are co-owners of a photography business, valued at $500,000. Mia is the photographer and Oscar does not generate any income but loaned the business $400,000 to start it up. Who could be a key person of the business?

a. Only Mia.

b. Only Oscar.

c. Both Mia and Oscar.

d. Neither Mia nor Oscar.

4. A policy over which of the following key person would generally not be seen to have a revenue purpose?

a. A partner in a partnership.

b. A director of a company.

c. A sole trader.

d. A senior sales manager.

5. Which of the following items would typically be covered under a Business Overheads Policy?

a. The capital amount of a loan.

b. A fall in business income.

c. The cost of hiring a replacement employee.

d. Salaries of non-income producing employees.

To answer questions
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When does a TTR income stream convert to retirement phase?

CRAIG DAY
COLONIAL FIRST STATE

This article is worth
0.5 CPD HOURS

FPA DIMENSION
CRITICAL THINKING

ASIC KNOWLEDGE AREA
SUPERANNUATION

Includes
- Notification requirements for SMSFs
- Retirement condition of release
- Transfer balance cap
- Estate planning

In late June 2017, the Government amended the definition of retirement phase income streams to include Transition to Retirement (TTR) income streams where the member has met one of four specific conditions of release.

This change was designed to enable a member to qualify for the earnings tax exemption on the assets supporting their pension without needing to stop their TTR income stream and start a new account-based pension once they retire.

However, it is important to understand how these rules work, as they may require a member to take action to convert their TTR income stream to the retirement phase, which could have implications for a member's transfer balance cap and estate planning arrangements.

Conversion to retirement phase

Under the changes[1], a TTR income stream will convert to the retirement phase once the member:

- turns 65 (this will occur automatically on the member's 65th birthday); or
- notifies their fund they have satisfied a condition of release in relation to retirement, permanent incapacity or terminal illness.

Where a member notifies their fund they have satisfied a condition of release, the TTR income stream will convert to the retirement phase from the date the fund is notified – not from the date the member satisfied the condition of release.

Example

If a member with a TTR income stream notified their fund that they had satisfied the retirement condition of release on the same day they retired, the TTR income stream would convert to the retirement phase and the earnings on the assets supporting the pension would qualify for the earnings tax exemption from that date.

However, if the member did not notify their fund until six months later, the earnings on the assets supporting the TTR income stream would continue to be taxable during that period.

Notification requirements for SMSFs

Where a member receiving a TTR income stream from an SMSF satisfies a condition of release in relation to retirement, permanent incapacity or terminal illness, the ATO has confirmed the member must still notify the trustee in writing to convert the TTR income stream to the retirement phase, and cannot rely on the fact that the member and the trustee may be the same.

Retirement condition of release and tax avoidance schemes

Clients wanting to convert their TTR income stream to the retirement phase to qualify for the earnings tax exemption should be warned against entering into any schemes or arrangements that allow them to declare retirement where they wouldn't otherwise be eligible.

For example, clients who have turned 60 should be warned against entering into any scheme or arrangement that involves getting a job after turning 60 with the intention of immediately resigning, so as to satisfy the retirement condition of release.

Care should also be exercised in relation to

clients ceasing employment arrangements with a related company or trust where they will continue to hold some interest in that entity.

For example, the ATO has warned that where a person who resigned as an employee of a related company or trust after turning 60 continued to be involved in the entity's key profit making activities, that person may not be considered to have satisfied a condition of release where there is any link between their activities and the level of dividends or distributions received.

Transfer balance cap

Under the transfer balance cap rules, a credit arises in a client's transfer balance account when they become the recipient of a retirement phase income stream. Therefore, where a TTR income stream is not in the retirement phase, it will be disregarded for transfer balance cap purposes.

However, where a TTR income stream converts to retirement phase on or after 1 July 2017, the value of the TTR income stream will be credited to the member's transfer balance account from the conversion date.

Therefore, where the TTR income stream will cause the client to exceed their transfer balance cap (currently $1.6 million), the member will need to commute and transfer any excess amount back to the accumulation phase prior to turning age 65, or notify the trustee they have satisfied one of the specified conditions of release.

Pre 1 July 2017 conversions

Prior to 1 July 2017, many superannuation funds simply converted TTR income streams to account-based pensions where the member had satisfied a condition of release. As a result, the value of these pensions will have been credited to the member's transfer balance cap on 1 July 2017 as retirement phase account-based pensions.

Members with SMSFs should also be aware that their fund will be required to report to the ATO the value of their TTR income stream when it converts to a retirement phase income stream for transfer balance cap reporting purposes. This will generally require the trustee to value the fund's assets and to prepare an interim set of accounts to determine the value of the TTR on the conversion date.

Estate planning

Under the new death benefit cashing rules that apply from 1 July 2017, a death benefit can only be cashed as either:

- a superannuation lump sum death benefit; or
- a superannuation pension that is in the retirement phase.[2]

The inclusion of the term 'retirement phase' causes issues for reversionary TTR income streams.

That is, where a member with a reversionary TTR income stream dies, the income stream generally continues and does not cease on death.

However, as a death benefit can only be paid in the form of a pension that is in the retirement phase, a person nominated as a reversionary beneficiary on a TTR income stream must themselves be able to satisfy one of the specified conditions of release at the time of the original member's death.

This includes situations where the member had already satisfied a full condition of release prior to their death.

> It is important to understand how these rules work, as they may require a member to take action to convert their TTR income stream to the retirement phase, which could have implications for a member's transfer balance cap and estate planning arrangements.

As a result, the reversionary beneficiary must already have turned 65 or have been retired, permanently incapacitated or terminally ill at the time of the member's death for the TTR income stream to be able to revert to them.

Example

Bob (age 60) starts a TTR income stream and nominates Betty, his spouse, as his

Continues on page 34

reversionary beneficiary. Betty is age 52 and works as a nurse. Unfortunately, Bob then dies unexpectedly. In this case, as Betty is under age 65 and has not satisfied one of the other conditions of release, Bob's TTR income stream would not be permitted to revert to her, as it would not be in the retirement phase.

Invalid reversionary nominations

Where the person nominated as a reversionary beneficiary on a TTR income stream has not satisfied one of the specified conditions of release prior to the member's death, the reversionary nomination will technically be invalid – as the income stream will not be permitted to revert under the death benefit payment rules. In this case, depending on the fund rules, the death benefit could be paid to the:

- deceased member's estate; or
- member's beneficiaries as either a lump sum or a new account-based pension.

Depending on the circumstances, this could result in the member losing the ability to receive the death benefit as an income stream or not receiving any of the death benefit.

For example, where a reversionary nomination on a TTR income stream was deemed to be invalid, a super fund's rules could:

- require the trustee to pay the death benefit to the member's estate – from where it would be paid as lump sums in accordance with the terms of the member's will; or
- give the trustee the power to exercise its discretion to pay the death benefit directly to whichever of the member's SIS dependants it deems appropriate.

As a result, this could lead to a number of unintended outcomes, including:

- the reversionary beneficiary losing the ability to receive the death benefit as an income stream; or
- the death benefit being paid to the deceased member's other beneficiaries either due to the trustee exercising its discretion or due to the terms of the member's will.

It should also be noted that where the death benefit is paid as a new death benefit income stream, the value of the new income stream will be credited to the beneficiary's transfer balance cap on commencement. That is, they will not get the benefit of the 12-month delay that applies for reversionary income streams.

Advice implications

Members with reversionary TTR income streams may wish to review their estate planning arrangements to ensure the person nominated as their reversionary beneficiary is able to receive their death benefit.

For example, depending on the rules of the fund, this could be achieved by revoking and replacing a reversionary nomination with a binding or non-lapsing death benefit nomination. This would then ensure the trustee would be required to pay the death benefit to the person intended, who could then elect to take the death benefit as a new account-based pension that is in the retirement phase.

It is very important for advisers to contact the relevant fund (or seek legal advice in relation to an SMSF) to confirm whether it is possible to revoke a reversionary nomination on an existing income stream without needing to stop and restart the income stream. Where this is not possible, the member would need to commute and restart their existing income stream.

Members with reversionary TTR income streams may wish to review their estate planning arrangements to ensure the person nominated as their reversionary beneficiary is able to receive their death benefit.

TTR income streams reverting to a beneficiary on death

What about TTR income streams that have already reverted to a beneficiary on death?

It is important to note that the rules discussed above technically apply to reversionary TTR income streams where the member dies on or after 1 July 2017, as well as to TTR income streams where the member died prior to 1 July 2017.

Where a member died and their TTR income stream reverted to a beneficiary prior to 1 July 2017, many super funds may have simply started treating the TTR

income stream as an account-based pension from the time it reverted. In this case, many of these income streams may already be treated as account-based pensions in retirement phase. As a result, super funds may decide not to restructure these pensions.

For more information on TTRs converting to the retirement phase, see the Super Reform TTR Fact Sheet on the FirstTech website.

Craig Day is Executive Manager, Technical Services at Colonial First State.

Footnotes

1. Included in Treasury Laws Amendment (2017 Measures No 2) Act 2017.

2. Note – restrictions apply to prohibit the payment of a death benefit as a pension to a member's child unless the child is disabled, under age 18 or aged 18 to 24 and financially dependent on the member.

QUESTIONS

1. Which of the following statements is correct regarding notification requirements for members receiving a TTR income stream from a SMSF?

a. To convert a TTR income stream to retirement phase, a member is not required to notify the SMSF trustee that they have met the retirement condition of release, as the member and trustee are generally the same person.

b. To convert a TTR income stream to retirement phase, a member is required to notify the SMSF trustee when they have met the retirement condition of release.

c. To convert a TTR income stream to retirement phase, a member is not required to notify the SMSF trustee that they have met the permanent incapacity condition of release, as the member and trustee are generally the same person.

d. To convert a TTR income stream to retirement phase, a member is required to notify the SMSF trustee that they have reached aged 65.

2. Helen reached preservation age and commenced a TTR income stream on 1 January 2016. She permanently retires on 1 January 2018. However, she does not notify her fund that she has met the retirement condition of release until 20 January 2018 (her fund immediately acts on her notification). At what date does Helen's TTR income stream become a retirement phase income stream?

a. 1 January 2016.

b. 30 June 2017.

c. 1 January 2018.

d. 20 January 2018.

3. Which condition of release does not allow a member to have earnings on assets supporting their TTR income stream to accrue tax-free?

a. Retirement.

b. Reaching age 65.

c. Terminal medical condition.

d. Compassionate grounds.

4. Alex commenced a TTR income stream on 1 January 2010 with a balance of $600,000. On 23 March 2018, he reaches age 65, at which time his TTR income stream balance is $800,000. Which of the following statements is correct?

a. An $800,000 credit will arise in Alex's transfer balance account on 30 June 2017.

b. An $800,000 credit will arise in Alex's transfer balance account on 23 March 2018.

c. A $600,000 credit will arise in Alex's transfer balance account on 30 June 2017.

d. A $600,000 credit will arise in Alex's transfer balance account on 23 March 2018.

5. Two years ago, Julia commenced a TTR income stream, which is automatically reversionary to her spouse, Chris. Julia dies on 13 October 2017, at which time Chris is aged 55 and has not met a condition of release. Which of the following statements is correct?

a. The TTR income stream can automatically revert to Chris, as it became a retirement phase income stream when Julia died.

b. The TTR income stream can automatically revert to Chris because Chris has reached age 55.

c. The TTR income stream cannot automatically revert to Chris, as Chris has not met an eligible condition of release. The reversionary nomination will be invalid and the super fund's default death benefit procedures will apply.

d. The TTR income stream cannot automatically revert to Chris, as Chris has not met an eligible condition of release. However, as Chris has been validly nominated but cannot receive the TTR income stream as a reversionary income stream, the death benefit must be paid to him as a lump sum.

To answer questions
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Taking on the Tassie Challenge

This year, the Future2 Foundation is offering three hiking challenges in Tasmania prior to the start of Congress. Diem La CFP® talks about her motivation for participating in this year's fundraising challenge.

Diem La

1. Which Tassie Challenge are you doing and what motivated you to take on this challenge?
I'm doing the Alpine Hiking Challenge, which is a four day hike. It's graded as moderate and features a series of day walks. I've wanted to actively contribute to the Future2 Foundation for a while now, and this Tassie Challenge is a wonderful opportunity for me to do so.

In previous years, the annual Future2 Wheel Classic has been the only major event that has been on offer but unfortunately, I'm not fond of riding long distances. However, I've enjoyed hiking in the past, so the Alpine Hiking Challenge is a perfect fit for me. I can finally contribute actively to the Future2 Foundation, whilst doing something I enjoy. The beautiful Tasmanian scenery will be a bonus.

2. What do you hope to achieve by taking on the Alpine Hiking Challenge?
By participating in this Tassie Challenge, I hope to raise greater awareness amongst the financial planning profession and my social network for the wonderful work that Future2 does in helping young Australians who are less fortunate than us.

3. What do you expect to be the most challenging part of the Alpine Hiking Challenge?
The most challenging part will be carrying my own backpack for the duration of the four day hike. Normally, my husband would carry my back pack when we go hiking!

4. How are you preparing for the Alpine Hiking Challenge?
I will be undertaking a couple of short hiking trips in Victoria with the family in the next couple of months and yes, I will be carrying my own backpack! I have also been going on uphill walks with friends on the weekends. This is helping to improve my stamina, endurance and mental fitness.

5. How important are fundraising initiatives, like the Future2 Tassie Challenge, in assisting disadvantaged young Australians?
I honestly believe that fundraising initiatives are immensely important in assisting disadvantaged young Australians.

Whilst the money raised through initiatives like the Future2 Tassie Challenge provides the means to assist those in need, it also raises greater awareness of the situation and constant struggle faced by disadvantaged youth in Australia. That's something I am particularly interested in promoting within our community.

TASSIE CHALLENGE

Delegates attending this year's FPA Professionals Congress have the option of participating in one of three unique hiking challenges prior to the start of Congress. The three hiking challenges are:

- A four day Future2 East Coast Challenge, which has been graded 'easy' and includes multi adventure activities, like kayaking, cycling and hiking;
- A four day Alpine Hiking Challenge, which is graded 'moderate' and features a series of day walks; and
- A five day Extreme Hiking Challenge, which is graded 'difficult'. Participants walk the Mount Anne circuit, which is one of the world's classic hiking treks.

By signing up to one of these Tasmanian hiking challenges, participants will undertake to raise at least $1,500 for Future2.

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

future2
the Foundation of the Australian Financial Planning Association

Peddle power for youth in need

After participating in last year's Future2 Wheel Classic, Simon Peckitt is preparing to take on this classic ride again, but cycling in Tasmania will be a first for this Melburnian.

1. What does the Future2 Wheel Classic mean to you?
I've participated in some fantastic charity events in the past few years, but one great thing about Future2 is the opportunity to meet the people who have benefited from the Foundation. Last year, it was great to start the ride by meeting the women from the Esther Cafe and hearing first-hand how the project, which was supported by Future2, had helped give them a fresh start and support.

2. Why did you decide to participate in this year's Future2 Wheel Classic?
I thoroughly enjoyed last year's Wheel Classic in Perth. The event was well organised and the Future2 team bring a good amount of passion to the event.

I have been a keen cyclist for many years and took up road cycling at university as a means to have a break from studies and keep fit. The ability to combine my love of cycling with a terrific cause that makes a difference to disadvantaged young Australians, is very appealing to me.

It's particularly encouraging that IRESS is a silver sponsor of the Future2 Wheel Classic. IRESS has demonstrated its commitment to the Future2 Foundation over a number of years now.

3. What do you expect to be the most challenging aspect of cycling in Tasmania?
This will be my first trip to Tasmania and from what I've heard, the weather can be quite variable.

I'm an all weather cyclist though, so the real challenge will be if we are descending on a wet road. There is an increased risk descending a road you haven't first ascended, and this is multiplied in the wet!

4. How are you preparing for the 726km ride?
I only have two weeks to prepare for the ride due to an extended break around East Africa, so I will mainly focus on distance training ahead of the event and hope my muscles are strong enough for the hill climbs.

However, I can say that my 'glutes' are getting a good workout on some of the bumpy bus trips between destinations in Africa!

5. What do you hope to achieve by participating in the Future2 Wheel Classic?
First and foremost, we are participating to raise funds for the Foundation and increase awareness for the issues that affect disadvantaged young Australians.

A key component of IRESS' corporate social responsibility activities is fundraising matching, which gives me greater determination to work hard to raise funds, so that my participation can truly make a difference for charitable organisations.

Simon Peckitt from IRESS.

CYCLING THE APPLE ISLE

Now in its eighth year, this year's Future2 Wheel Classic will follow a seven day route, starting in Tasmania's Devonport on 16 November and finishing in Hobart on 22 November at the FPA Professionals Congress.

The seven day cycling route covers a distance of 726km. Cyclists also have the option to sign up to ride shorter stages, if they are unable to commit to the full seven day program.

By signing up to the Wheel Classic, participants will undertake to raise at least $1,500 for Future2.

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

Upcoming Chapter Events

In support of Future2

MONDAY 30 OCTOBER
South Australia
The **South Australia Chapter** will hold its annual Future 2 Foundation Charity Golf Day on 30 October at Kooyonga Golf Club, Adelaide. The challenging layout and sensational playing surfaces of this championship golf course provides players with the ultimate golfing experience. Join your colleagues and friends for this networking Ambrose event, with a light lunch, pre-dinner drinks and dinner provided.

TUESDAY 7 NOVEMBER
Western Australia
The **Western Australia Chapter** is holding its annual Future2 Melbourne Cup luncheon and auction on Tuesday 7 November at Beaumonde on the Point, Perth. 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.

TUESDAY 7 NOVEMBER
Sydney
The **Sydney Chapter** invites members and guests to its inaugural Future2 Melbourne Cup luncheon and auction on 7 November at the Hyatt Regency Sydney. This event provides a great opportunity to network with your peers over a sit down lunch, while supporting Future2 with sweeps, a Calcutta and raffles on the day.

FPA Women in Wealth kicks off

THURSDAY 19 OCTOBER
The **Brisbane Chapter** is launching its inaugural FPA Women in Wealth networking event on Thursday 19 October. The FPA Women in Wealth event will feature a presentation by **Colette Werden**, the founder and chief executive officer of Colette Werden Australia – a style and image specialist company. Colette will speak on: 'The art of authentic self-packaging: How to use pieces of fabric to increase your self-confidence, not destroy it.'

At Colette Werden Australia, Colette works with entrepreneurs and professionals to improve their image and increase their presence, enabling them to be recognised as leaders in their respective fields.

For this event, the FPA will partner with Financial Executive Women (FEW) and Macquarie Bank to present FPA Women in Wealth, as part of a new program designed to advance the progression of women in the financial planning profession.

Colette Werden

A two course lunch will be served at Blackbird Restaurant, 123 Eagle Street, Brisbane. The cost is $85, and attendees are encouraged to bring along a mentee, young planner or student free of charge. As a bonus offer, FPA members can also join the founder of FEW, Judith Beck, when she hosts FEW's Circle discussion group from 10am-11.30am, prior to the lunch event commencing. FEW's Circle events are an opportunity to discuss topical issues with your peers.

Understanding retirement villages

The **South East Melbourne Chapter** recently held an event that focused on 'understanding retirement villages'. The guest speaker at this event was the Principal of Aged Care Gurus, **Rachel Lane**, who discussed the various aspects of moving into a retirement community. Topics ranged from: selling the family home, finding the right type of retirement community, the different forms of legal contracts, financial arrangements and the impact on pension entitlements.

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**

FPA Chapter directory

NSW

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

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

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

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

Riverina
Chris Manwaring CFP®
Chairperson
T: (02) 5908 1755
E: chris.manwaring@stateplus.com.au

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

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

ACT

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

Victoria

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

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

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

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

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

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

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

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

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

Queensland

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

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

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

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

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

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

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

Toowoomba/Darling Downs
Naomi Alletson AFP®
Chairperson
T: (07) 4638 5011
E: nalletson@achieveitfp.com.au

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

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

South Australia

Andrew Harris CFP®
Chairperson
T: (08) 8373 1711
E: andrew.harris@minerdsbell.com.au

Northern Territory

Susie Erratt CFP®
Chairperson
T: 0411 331 780
E: mha50580@bigpond.net.au

Western Australia

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

Tasmania

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

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

FPA Board

Chair
Neil Kendall CFP® (QLD)

Directors
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Mark O'Toole CFP® (VIC)
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Marisa Broome CFP® (NSW)
Matthew Brown CFP® (QLD)
Philip Pledge (SA)

Board Committees

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Audit Committee
Chair: Philip Pledge

Governance and Remuneration Committee
Chair: Neil Kendall CFP®

Policy and Regulations Committee
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Professional Designations Committee
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