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The path to better planning

Cameron Obliubek and the commitment to CFP® Certification

THIS ISSUE

TPB REGISTRATION RENEWAL / ESTATE PLANNING / AUSTRALIAN EQUITIES
SUPERANNUATION REFORMS / CGT AND INHERITING THE PRINCIPAL HOME

FINANCIAL PLANNING
ASSOCIATION of AUSTRALIA

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A line in the sand

Last month we saw the passing of two key pieces of legislation through parliament, and a line in the sand for the future of our profession.

The Government's green light on both the Professional Standards and Education Framework and Life Insurance Bill was a welcome announcement. After a long period of uncertainty, finally we have the detail and we can move forward with implementation support for members.

As March gets underway, we are busy working on the key initiatives for 2017.

Before I move on to what's coming up, I wanted to firstly thank those of you who completed the 2016 FPA member satisfaction survey. To have over 800 members share their feedback provides us with reassurance we are on the right path, but also direction on how we can improve.

From the feedback, it was clear that legislative change and consumer advocacy remain two areas that are top-of-mind for our community – rest assured, they also remain important areas of focus at the FPA.

Money & Life

On the subject of consumer advocacy, hopefully you have had an opportunity to jump online and take a look at Money & Life, our recently launched online destination for consumers. The site has been a long time in the making and I really hope you make the most of it.

The content is there to be shared with your networks and help fuel your own online marketing activity.

With your help, we can take the message about good financial planning to more Australians. If you fancy yourself as a bit of a writer, you can also contact hello@moneyandlife.com.au about becoming a contributor.

When on the site, you'll also notice a 'Professionals' section, providing you with articles on strategy, practice management, career development and business growth.

Some of the articles are accredited with CPD hours if you take an online quiz. If you haven't yet visited Money & Life, I encourage you to take a look. Jump online at www.moneyandlife.com.au

FPA National Roadshow

We were excited to release the dates for this year's FPA National Roadshow, kicking off on Wednesday 26 April and visiting 33 locations around the country.

My team and I highly value the opportunity to visit you face-to-face in your local area, so I really hope you can make it.

As always, we'll be packing into two hours, as much as we possibly can. That includes the launch of our latest Member Resource, an update on the FPA Professional Ongoing Fees Code due to commence on 1 July, the latest legislative developments, and a segment from this year's partner, Platinum Asset Management.

In addition to two CPD hours, the event is also a great opportunity to catch up with your peers.

Registration for each location opens this month. Visit page 6 in this edition for the list of dates and times for 2017 or visit fpa.com.au/roadshow

Getting involved

Of course, you don't need to wait until the roadshow or the annual member satisfaction survey to talk to us. We are always here, listening to your feedback.

We are also always looking for your expert input into initiatives that will help us collectively shape the future of our profession. Whether that be contribution to policy submissions, an FPA committee, or involvement in any one of our consumer initiatives.

If you'd like to have your say, get involved or contribute in some other way – please get in touch.

Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10


WE'RE
INVESTED
Invested in helping you and your clients be ready for what's next. Invested in helping you to grow your business. Invested in developing technology to make you and your clients' lives easier. Invested in helping meet the challenges and opportunities of change. Invested in future growth. Invested in moving forward. And, because we know you won't stop looking for better ways to help your clients, neither will we.
Talk to your BDM, they're invested in supporting you.
Find out how our FirstChoice, FirstWrap and Managed Accounts solutions can help you and your clients. Visit colonialfirststate.com/adviser
FORWARD TOGETHER
Colonial First State

MONEY & LIFE now live

The FPA's new Money & Life website is now live, providing consumers with engaging digital content designed to help them improve their financial wellbeing.

In launching Money & Life, FPA chief executive officer, Dante De Gori says the new website will showcase feel good financial planning stories, which will help capture the hearts and minds of Australians.

"I believe there is a large misconception about financial planning and what financial planners actually do," De Gori says. "So, there is a real opportunity to rectify that and debunk these myths, while clearly demonstrating the benefits of good financial advice."

Money & Life offers regularly updated content that provides consumers with meaningful information and practical tips that will better enable them to make informed decisions about their financial wellbeing.

FPA members can become involved with the website by sharing their financial planning expertise with consumers. To become a contributor, send your expression of interest, along with your area of expertise, to **communications@fpa.com.au**

The Money & Life website also includes a professionals' section that is available to FPA members. By using your FPA membership details, you can log onto the site to access Continuing Professional Development accredited articles, as well as content on strategy, practice management and career development.

Members can check out the website and introduce it to their clients by going to moneyandlife.com.au

National Roadshow dates announced

This year's annual FPA National Roadshow will kick off in South East Melbourne on 26 April and finish in Gold Coast and Wollongong on 29 June. Over three months, the roadshow will visit 33 locations. Places are limited, so FPA members are encouraged to register early. Non members are also welcome to attend. All roadshows are free of charge. **For more information and to book your place, go to fpa.com.au/roadshow**

Save the date

Wednesday 26 April
South East Melbourne – 12pm–2pm

Thursday 27 April
Ballarat – 7:30am–9:30am
Geelong – 12pm–2pm

Friday 28 April
Bendigo – 7:30am–9:30am

Monday 1 May
Mid–North Coast (Coffs Harbour, NSW) – 12pm–2pm
New England – 12pm–2pm

Tueday 2 May
Mid–North Coast (Port Macquarie, NSW) – 12pm-2pm
Western Division (Dubbo NSW) – 12pm–3:15pm

Wednesday 3 May
Western Division (Orange NSW) – 12pm–3:15pm

Thursday 4 May
Far North Coast – 7:30am–9:30am

Friday 5 May
Toowoomba/Darling Downs – 7:30am–9:30am

Monday 22 May
Tasmania Hobart – 12pm–2pm

Thursday 25 May
Western Australia – 7:30am–9:30am

Friday 26 May
South Australia – 12pm–2pm

Tuesday 30 May
Brisbane – 12pm–2pm
Sunraysia – 12pm–2pm

Wednesday 31 May
Melbourne – 12pm–2pm
Cairns – 12pm–2pm

Thursday 1 June
Gippsland – 12pm–2pm

Friday 2 June
Sydney – 12pm–2pm

Wednesday 14 June
ACT – 12pm–2pm

Thursday 15 June
Northern Territory – 7:30am–9:30am

Monday 19 June
Wide Bay – 7:30am–9:30am
Townsville – 12pm–2pm

Tuesday 20 June
Mackay – 7:30am–9:30am
Sunshine Coast – 12pm–2pm

Wednesday 21 June
Rockhampton – 7:30am–9:30am

Tuesday 27 June
Newcastle – 12pm–2:00pm
Riverina – 12pm–2pm

Wednesday 28 June
Albury/Wodonga – 7:30am–9:30am

Thursday 29 June
Goulburn Valley – 7:30am–9:30am
Gold Coast – 12pm–2pm
Wollongong – 12pm–2pm

** Breakfast or lunch is included. Registration is approximately 15 minutes before the start time.*

INCOME MATTERS

FACING A REAL WORLD PROBLEM

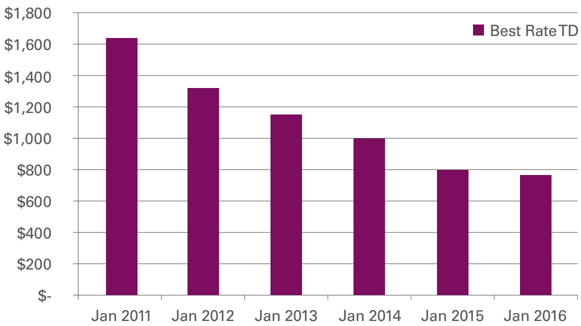
Today's retirees are facing a real-world problem, the likes of which we have not seen before. Record low deposit rates, low bond yields, low growth and the risk of rising inflation bring a new set of challenges, challenges which are further compounded by rising life expectancy. This changing landscape questions many traditional investment solutions where income is fixed and capital is eroded.

Retirees still need a sustainable and growing income stream alongside the potential for capital growth. Therefore, the way in which we think about retirement solutions will need to change. The primary focus in decision making is no longer around the perceived capital risk, but instead the risk to income produced.

Previously we may have assumed a term deposit to be low risk. But in reality, when judged on the income provided to the investor, this has been a high-risk answer that will have led to a material reduction in dollars paid every month to their bank account. So, if Term Deposits and Annuities no longer provide a complete solution for the future, where does the discerning investor turn?

Figure 1

Income from $30,000 invested in a Term Deposit 5 years ago



Based on next 12 months income

Past performance is not a guide to future returns. Source: Martin Currie Australia, RBA, as at 31 December 2016.

The answer: Quality, growth assets

Legg Mason has over 100 years of history serving millions of clients from around the world. This heritage and global perspective has helped us think about the problems that will arise for investors. The problems arising here today have many similarities with those that investors in Japan, Europe and the US have been dealing with for years. In recognition of this our equity specialist affiliate, Martin Currie Australia, developed two solutions that we believe are tailored to meet the needs of Australian investors and designed to maximise the after-tax income generated.

1. Legg Mason Martin Currie Real Income

Launched in December 2010 this fund has the explicit objective of delivering a high and growing income stream. It does so by investing in a portfolio of deeply researched and carefully selected listed real assets across utilities, property and infrastructure. An innovative solution, with over six years of proven results, gives investors a compelling strategy that can help diversify in a well balanced portfolio and help to solve for the need of a sustainable and growing income.

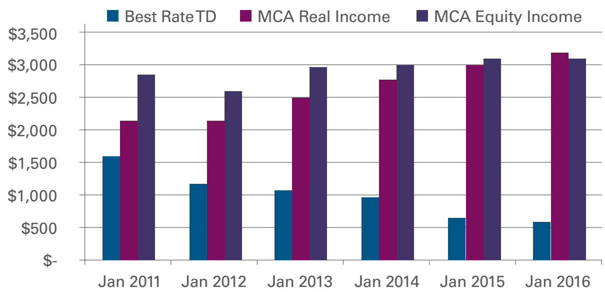
2. Legg Mason Martin Currie Equity Income

Debuting in June 2011, this fund invests across the entire Australian Share market but has two distinctive elements in its design. Firstly the stock selection process is focused on finding those companies that offer attractive sustainable income; which is rigorously tested by our analyst to ensure this can still be delivered in difficult times. Secondly, the portfolio construction process is designed to reduce concentration risk so that the income produced by the portfolio is well diversified and is not dominated by a particular company or industry sector.

Proven results

Figure 1 highlighted how income from Term Deposits has collapsed over the past 5 years. As the chart below shows, both of the Legg Mason funds detailed in this article have delivered a completely different outcome.

Next 12 months income from $30,000 invested 5 years ago



Source: Martin Currie Australia, Factset, RBA, ABS; as at 31 December 2016. Data calculated for the representative Martin Currie Australia Real Income and Equity Income account in A$ (net of fees). Assumes zero percent tax rate and full franking benefits realised in tax return. Next 12 Months Income is calculated using the weighted average of broker consensus forecasts of each portfolio holding.

Whilst no one investment solution can meet the diverse needs of an investor, these funds can provide a valuable part of a total investment solution that we believe is designed to meet the central need for any retiree: a sustainable and growing income stream allied to the potential to grow the capital base over time.

Cycle the Apple Isle

This November, the 2017 Future2 Wheel Classic will return, now in its eighth year. The ride will follow a seven day route, staring in Devonport on 16 November and finishing in Hobart on 22 November at the FPA Professionals Congress.

Cyclists will also have the option to sign-up to ride shorter stages, if they are unable to commit to the full seven day program.

For more information on the Future2 Wheel Classic, go to future2foundation.org.au

The Future2 Foundation is the philanthropic arm of the FPA. Grants are awarded annually to not-for-profit organisations with programs developed for socially and financially disadvantaged young Australians.

Chapters kick off with CPD

On 6 February, the **Geelong Chapter** hosted a member lunch with NAB Senior Economist, Bob Cunneen, presenting a session that examined the latest economic and political analyses, and what this would mean for the year ahead.

The **Western Australia** Chapter lunch on 15 February featured Fiona Halsey (Halsey Legal Services) and Obsequium Consulting's Julia Feher and Eloise Armitage. The speakers spoke on disputes and client complaints, ethics and best interests duty. This was followed by a panel Q&A session.

Upcoming Chapter Events

THURSDAY 2 MARCH
Sydney
Member Breakfast Seminar
Topic: Super reform: Client impacts and strategies
Speakers: Craig Day (Head of FirstTech, Colonial First State) and George Lytas (Head of Retirement, CommInsure)

FRIDAY 3 MARCH
Albury/Wodonga
Member Lunch Seminar
Topic: Investment briefing
Speaker: Chris Inifer (Head of Retail Distribution, Allan Gray Australia)

TUESDAY 7 MARCH
Melbourne
Member Breakfast Seminar
Topic: Super reform: Client impacts and strategies
Speakers: Craig Day (Head of FirstTech, Colonial First State) and George Lytas (Head of Retirement, CommInsure)

FRIDAY 17 MARCH
Ballarat
Annual Future2 Golf Day

MONDAY 20 MARCH
Western Australia
Annual Future2 Golf Day

Melbourne
Annual Future2 Golf Day

FRIDAY 31 MARCH
Sydney
Annual Future2 Golf Day

Geelong
Annual Future2 Golf Day

Register now by emailing events@fpa.com.au

We look forward to seeing our members at their next local Chapter event.

For upcoming events in your local Chapter, please go to **fpa.com.au/events**

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

NSW

Matthew Williams CFP®
JSA Financial Planning

Eric Chen CFP®
CoWealth Partners

Dahlia Thai CFP®
Commonwealth Financial Planning

Timothy Cummins CFP®
Westpac Banking Corporation

Troy Ottens CFP®
Centric Wealth

David Lipari CFP®
ANZ Private Bank

QLD

Steven Larman CFP®
Bailiwick Lifestyle Financial Planners

Bradley Russell CFP®
AMP

Natasha Johnson CFP®
BDO Private Wealth Advisers

James Weyler CFP®
Shadforth Financial Group

Andrew Macdonald CFP®
Snelleman Tom Financial Services

TAS

Simon Duigan CFP®
Core Independent Financial Advice

VIC

Calvin Nee CFP®
APW Partners

Julia Bull CFP®
BKM Financial Services

WA

Dawn Thomas CFP®
Commonwealth Financial Planning

future2
the Foundation of the Australian Financial Planning Association

Drenched for a good cause

With the generous support of FPA members and colleagues, team FPA raised a total of $19,000 in a Future2 Yellow Bucket Challenge, at the November FPA Professionals Congress in Perth.

The aim of the challenge was to raise enough funds for an additional Future2 'Make the Difference!' Grant, but the group almost doubled their target.

Future2 chief executive officer Pene Lovett said: "Our team are so humbled by the dedication and generosity of the FPA community. The team wanted to acknowledge the magnificent fundraising efforts within the FPA membership, and chip in with our own efforts. A huge thank you to those who supported the challenge."

The funds raised will go towards the 2017 Future2 'Make the Difference!' Grants, designed to provide new hope to disadvantaged youths around Australia.

Lovett added, "We encourage FPA members to consider nominating a local not-for-profit for the next round of grants, opening later this year."

For more information about Future2, head to www.future2foundation.org.au

Better business efficiency

Q: How do you assess the efficiency of each part of your advice process, and what tools have you found to improve your efficiency?

Cody Harmon AFP®

Financial Adviser, Meridian Wealth Management
Licensee: Meridian Wealth Management

When starting out as an adviser, I would actually monitor conversion rates from initial contact, initial consultation, advice presentation meeting, and implementation of advice.

Having low conversion rates would point to an issue in the quality of my advice process. For example, if my client conversion rate was one in every 20 people who came into my office, and I required 20 new clients per year to remain profitable as a planner, having 400 initial consultations to achieve my target of 20 new clients is simply not efficient.

Being brutally honest, the hours you spend working on each task is important, along with keeping track of the hours spent by your paraplanner on different types of strategies. This can quantify what is efficient and what is not efficient in your advice process.

To improve efficiency this year, I am going to engage a business coach who can cover my blind spots and make me more accountable. Improving efficiency yourself has it's limitations. That's because admitting faults and flaws in your own business is hard for some people to do, because cognitively it is hard for us to admit we are wrong about something. For example, you may have had parents who worked long hours and so you have the belief that working long hours is the key to success.

Research suggests that autonomous working and working less hours actually improves overall productivity, because you're more efficient and fresh. In this situation, your belief system is creating a blind spot which an external coach can help with.

At the end of the day, the results don't lie and engaging external resources to help improve process efficiencies may be the best way forward.

Charles Badenach CFP®

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

Having a standard process with a series of checklists, and constantly refining this has been the key for us in building an efficient advice business.

Comparing and benchmarking your processes against global best practice has also been an important factor in our development. This has been achieved through attending industry events, working with a business coach, meeting with industry peers, reading and listening to podcasts.

The main tools which we have used to improve our efficiency within the business are:

- Outsourcing intensive administrative tasks;
- Developing a detailed process manual;
- Employing casual university students for repetitive tasks, such as preparation of documentation for an annual review;
- Resetting business goals quarterly;
- Appointing champions in the office for the key business areas;
- Using video; and
- Allowing one day a month as our 'work on the business day'. This is where staff focus on an area that will enable them to do their job more efficiently.

Randall Stout CFP®

Principal Adviser, Fitzpatricks Private Wealth
Licensee: Fitzpatricks Private Wealth

As a sole practitioner and financial planner, sometimes the work load feels like it's never ending, particularly when you have high expectations to deliver the best advice to clients.

Recently, I sold out of my last practice, HPH Solutions. We had a team of five partners, 8-9 employed financial planners and administration team.

The workload kept increasing and it was difficult to find the time and resources to implement things efficiently.

So, I had to start from scratch with no clients, which led me to begin with an exciting opportunity - a clean slate coupled with 16 years' of experience.

Here is how I started:

1. Choose the right AFSL – I researched and selected Fitzpatricks Private Wealth, as I believe it has the most complete service offering to advisers I have encountered.

2. Outsource everything I don't have time for - for me that is XPLAN data entry, research, paraplanning and writing file notes. I employ an excellent advice writing, XPLAN data entry service and administration team provided by my licensee. They write my SOAs and will process my reviews and FDS. My file notes are transcribed using an overseas service.

3. Decide on 1-2 administration platforms – as long as the fees and services are competitive.

4. Decide on your investment approach and solve the investment decision for all of your clients – I like multi-asset managers, as I am no expert and they can do it all for me.

5. Get a business coach to keep you on track and make sure you are free to do what you love. For me, that means seeing clients and providing them with a value add experience.

6. Follow great processes. My licensee has shared their excellent XPLAN custom site, which is easy to use and run.

The process I have implemented currently is great. The work is coming in and I am delighted with the efficiency I have achieved so far.

Top 5 TPB registration renewal questions

Ian Taylor answers the five most common questions financial planners ask regarding TPB registration renewal.

I was pleased to meet many of you at the FPA Professionals Congress, which drew over 1,100 delegates to Perth last year.

It was the first time the Tax Practitioners Board (TPB) has had a booth at an FPA Congress and we were encouraged by your feedback that our attendance was welcomed.

For us it provided an invaluable opportunity to answer your questions and to explain the registration renewal process and the important deadlines you need to be aware of between now and January 2018.

It is important you are prepared, so get ready now. We heard many of you are uncertain about renewing your registration, as your Australian financial services (AFS) licensee previously registered, on your behalf, under the notification option.

To assist you, as you prepare to renew your registration in 2017, here are the 'Top 5' questions we received at the Congress and the answers we provided.

1 My AFSL registered me. When is my renewal due?

You must renew your registration at least 30 days before your registration expires. If you are one of the approximately 90 per cent of tax (financial) advisers who registered with the TPB by 31 December 2014, your registrations will expire on 31 January 2018 and therefore, you must lodge your renewal application by the end of December 2017.

However, if you notified between July and December 2015, your registration expiry date may be as soon as 31 July 2017. To check when your registration expires, search for your details on the TPB Register.

You should also talk to your AFS licensee, who may be able to support you through the renewal process.

2 What do I need to do to renew my registration?

To renew your registration, you will need to meet all of the renewal registration requirements.

These requirements include qualifications, experience and being fit and proper. The Individual tax (financial) adviser renewal kit is now available and you should read this document now to know what you need to do.

3 Do I need to be registered and how do I complete a new registration?

All AFS licensees and representatives who provide tax (financial) advice services for a fee or other reward must be registered with the TPB. You can register under the transitional option (until 30 June 2017), standard option (individual) or standard option (company and partnership).

For more information about what is a tax (financial) advice service and what is a fee or other reward, go to www.tpb.gov.au

4 What is required to register under the transitional option?

If you have not previously gained registration through the notification process, you may apply to register under the transitional option between 1 January 2016 and 30 June 2017. You must satisfy the TPB that you have sufficient experience to provide services to a competent standard.

Sufficient experience is generally the equivalent of 18 months or longer of full-time experience that is related to the provision of tax (financial) advice service or tax advice given in the context of financial advice.

5 Does my course meet the Board approved courses requirement?

Depending on which item you renew under, you may need to have completed a Board approved course in commercial law and Australian taxation law. To find out more about these qualification requirements, refer to the checklist in the Individual tax (financial) adviser renewal kit. You should also check the TPB's website, as your existing qualification may already be listed on our course list.

Stay informed

To ensure you receive important TPB information, it is extremely important to alert us to any changes in your contact details. You also have an obligation under the *Tax Agent Services Act 2009* to notify us of changes to your: email address; phone number; and postal address.

You will then stay informed about the latest TPB news and developments. Update your details in My Profile. Note that some of your details need to be updated separately via the ASIC website.

Keep up-to-date

There are a number ways you can keep up-to-date with your requirements:

- **register for a webinar; read TPB eNews; subscribe to the TPB RSS; join us on social media:**
- **linkedin.com/company/tax-practitioners-board**
- **twitter.com/TPB_gov_au**
- **youtube.com/user/TPBgov**

As we enter the next stage of your registration journey, it is a challenging yet exciting time for all of us. Along with my fellow Board members and TPB staff, we look forward to working closely with you.

Ian R. Taylor is Chair of the Tax Practitioners Board.

All AFS licensees and representatives who provide tax (financial) advice services for a fee or other reward must be registered with the TPB.

Making the decision to undertake the program was easy, knowing I too would represent and embody these attributes.

The path to better planning

Recently completing the CFP® Certification Program, Cameron Obliubek speaks about the importance of not underestimating the time and commitment required to successfully complete the program. Jayson Forrest reports.

Melbourne-based Bridges Financial Services financial planner, Cameron Obliubek has been named the Gwen Fletcher Memorial Award winner for being the highest achieving student in Semester 2 of the CFP® Certification unit. The award is presented each semester.

Since the award was first introduced in Semester 1, 2014, Cameron is only the second male to win the award and only the second winner to have completed the program with exemptions. The final unit of the CFP Certification Program has three assessments – an assignment, exam and two workplace observations. Cameron received his award for achieving the highest mark in all three required assessments.

In taking out the top place for Semester 2, 2016, Cameron credited his approach to starting early with his studies and dedicating the semester to his studies. He said "his wife can attest to this", as he spent three to four evenings each week, as well as weekends, going through the required course work.

The Gwen Fletcher Memorial Award was established in 2014 in memory of Gwen Fletcher AM. The Award

Name:
Cameron Obliubek CFP®

Educational qualifications:
BEconFin, MFin
Position: Financial Planner
Practice: Bridges Financial Services Melbourne
Licensee:
Bridges Financial Services
CFP® designation:
November 2016
Years as a financial planner: 13 years

is presented each semester to the highest achieving student in the CFP Certification unit, which covers all three required assessments in the CFP Certification Program.

In presenting Cameron with his award, FPA chief executive officer, Dante De Gori says the CFP Certification Assessment unit is rigorous, so to receive the Gwen Fletcher Memorial Award is a major achievement.

"Cameron's outstanding results are a testament to his commitment and dedication," De Gori says. "I congratulate him for his efforts and look forward to welcoming him to our growing CFP professional community."

The prestige of winning this award is not lost on Cameron, who says it's a "tremendous honour" to receive this award, because "not only is it recognition for my effort in completing the program but more importantly, it also recognises me as someone who also holds the same beliefs and aspirations for the financial planning profession as Gwen Fletcher did".

"Gwen's continuous pursuit of ensuring planners adhere to the highest standards of professionalism means that all Australians can benefit from financial advice," he says. "It's an important legacy Gwen has left us and one that we should all be proud of and continue to promote within the profession and the wider community."

Designation

As a planner of 13 years, Cameron has long been aware of the CFP designation, and always viewed it as the pinnacle of quality advice, holding planners to the highest standards of professionalism, ethics and technical ability.

Continues on page 16

I have learnt a lot of new information that I can now apply to my career going forward.

Course exemptions

You can progress to a Masters degree to meet CFP Certification Program entry (with exemptions for CFP 2, CFP 3 and CFP 4 in most cases) or add CFP 1, CFP 2, CFP 3 or CFP 4 to achieve a 'Masters equivalent' to meet the degree requirement.

Some education providers will allow you to count your FPA study towards a Masters degree as 'cross credits'.

If you completed an approved postgraduate program less than 10 years ago and have a degree, course exemptions for CFP 2-4 may apply. For more information, go to fpa.com.au

"So, for me, making the decision to undertake the program was easy, knowing that upon completion, I too would represent and embody these attributes," he says.

Cameron completed the CFP Certification Program with exemptions. He received exemptions for CFP 2 (Applied Strategies 1), CFP 3 (Applied Strategies 2) and CFP 4 (Investment Strategies) for having completed a Bachelor of Economics and Finance degree and a Masters of Finance. This meant he only had to complete CFP 1 (FPA Professionalism) and the CFP Certification Assessment.

But even with these exemptions, Cameron still found the program and course material challenging.

"Beginning the CFP Certification program was daunting, but I applied my existing work experience and technical knowledge gained as a planner of 13 years, as a strong platform from which to launch my studies," he says. "And from there, I focused on the areas I required further learning in."

Although he received exemptions for the program, Cameron's approach to his studies was anything but complacent.

"I also ensured I read the course notes on the topics for which I received the exemptions," he says. "This meant I was on top of all the course material, because whilst the exemptions were beneficial, it didn't mean that I completely grasped all the subject matter. So, that made it necessary for me to review all the course material."

Studies

As part of his approach towards studying for his CFP Certification, Cameron instinctively knew the significant involvement and the high standard required to successfully complete the program.

"I therefore knew that commencing the assignment immediately would be extremely beneficial in obtaining a good result," he says.

But he concedes that as an active planner with a heavy workload at Bridges Financial Services Melbourne to contend with, along with the demands of a young family to also juggle, meant having to carefully balance his work/life/study.

"I decided to break down the assignment into smaller, more manageable pieces," Cameron says. "I then attempted to undertake my studies most evenings. Inadvertently though, working through the assignment, I did find it required me to undertake further study in certain areas, which thereby formed a good basis for the exam component of the program."

However, Cameron says that in hindsight, with the youngest of his two children only arriving in March 2016, it probably wasn't the best time to undertake the CFP Certification Program.

So, with a young family and the pressures of work, how did Cameron achieve the right balance towards the demands of the CFP Certification Program?

"It did require a huge effort," he concedes. "Once the children were put to bed, I spent my evenings just working through the assignment. And then on the weekends, when my kids also slept, that was my time to get more work done."

Cameron also credits the patience and understanding of his wife, who also bore the burden of his study regime. "I think she would have preferred it if I was available to assist her more in the evenings. So, at times, it was difficult but she understood what I was doing and was supportive. It's important to have that support from your family and work colleagues."

Professionalism

Ask Cameron about the importance of structured and ongoing education for planners in the journey towards professionalism, and you are talking to a true advocate.

"I believe that structured ongoing education for planners is extremely important. If the profession wants consumers to view us in a similar manner they view other professionals, like doctors and accountants, then there is a requirement for continuing education, which is an important aspect in what defines professionalism," he says.

"And in the current legislative environment, planners who want to operate in this space have an obligation to ensure they understand all these changes in the client advice process."

Cameron also identifies 'trust' as another challenge facing planners in their journey towards professionalism.

"I think one of the most challenging aspects facing the profession is the community's perception around trust in planners, given previous high profile scandals around inappropriate advice.

This is unfortunate because we know that financial advice makes a real difference in people's lives, and yet we continue to see the community not fully engaged in the advice process," he says.

"If these issues aren't addressed, we may see more people seeking alternative forms of advice, either through product providers or even 'automated' style advice offerings. To me, that's the greatest challenge we face at the moment."

Advice

With the Government formalising requirements for higher education and professional standards for financial planners in the coming years, Cameron's advice to any aspiring planner is to get onboard now with the CFP Certification Program.

"This will not only ensure you meet the new requirements but it also demonstrates to your clients that you have the appropriate skills required to provide trusted advice," he says.

"For me, completing the CFP Certification Program was challenging but very rewarding – both personally and professionally.

"I have learnt a lot of new information that I can now apply to my career going forward. Becoming a CFP professional has made me a better planner."

The Gwen Fletcher Memorial Award

The Gwen Fletcher Memorial Award was established in 2014 in memory of Gwen Fletcher AM, who was considered by many to be the matriarch of financial planning in this country.

The award honours in perpetuity the memory of Gwen Fletcher, and supports one of her key legacies in her lifelong endeavours to champion the vital role of education and its central importance in nurturing the financial planning profession.

Gwen Fletcher was not only a respected financial planner but also an educator and mentor, and helped shaped the industry into an emerging profession. She was also responsible for bringing the CFP® Mark to Australia in 1990.

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

As part of the award, the recipient receives a certificate of recognition and $1,000, which is funded by the FPA.

The case for estate planning services

In a series of articles for *Financial Planning*, Gil Gordon CFP® turns the spotlight on estate planning. He explains that if done properly, estate planning can become significant for ongoing client engagement, which can not only differentiate your practice, but can create revenue, while delivering a genuine post FoFA service offering that is divorced from financial product.

Welcome to the first article in a series on the emerging field of estate planning and practice. This series will explore the need, the business opportunities and obstacles, the role of practitioners, the business models and finally, basic and advanced skills for practitioners in the field of estate planning and estate practice.

This series of articles will include:

- The shape of 21st century solutions;
- Estate planning for life – an integrated approach; and
- How to build an estate planning offering within your business.

The purpose of this series of articles is to educate and re-energise the advice industry to proactively introduce estate planning service offerings within planning practices.

Nuts and bolts

Estate planning has been spoken of many times in recent years as a critical service offering for planners, but articles rarely (if ever) examine the nuts and bolts of an estate planning offering. These include:

- How to measure and create demand within your client base?
- What skills are required within the practice?
- What deliverables are required?
- How to charge?
- How to structure the efficient provision of these services within a financial planning practice?

Demographics: The size of the market

The Australian Bureau of Statistics[1] provides the following data about the average household wealth in 2012 of the richest generation of retirees Australia has ever known:

- 55-64 years – $ 1,086,365 per family unit.
- 65-74 years – $1,007,645 per family unit.
- 75+ years – $786,879 per family unit.

> Intuitively, we understand that divorce is a very real problem in our society and a large diluter of wealth.

Taking into account the number of households in each age rage, some amazing figures appear. The following is the net worth of households in Australia by age group:

- 55-64 years – $1.67 trillion.
- 65-74 years – $1.06 trillion.
- 75+ years – $659 billion.

Put together, the net household wealth of the primary target market for most financial planners is $3,387,081,932,400 or around 192 per cent of Australia's 2012 GDP[2].

The sheer scale of these numbers renders them difficult to understand intuitively, so I will compare these figures to 2012 property values[3]:

- 55+ – 210 per cent of all the residential property in NSW.
- 65+ – 106 per cent of all the residential property in NSW.
- 75+ – 41 per cent of all the residential property in NSW.

Most people over the age of 65 will pass away within the next 25 years. This means the value of NSW is moving, but no-one is advising on it!

Are Australians worried?

Very little work has been done in Australia about the concerns of the population around issues relating to ageing and dying. However, a survey of Britons[4] aged over 50, rated dying as only the 12th priority issue associated with ageing. The findings included:

- 79.3 per cent of respondents admitted to worrying about ageing.
- 3.5 per cent have loss of capacity plans in place, while 96.5 per cent have no such plans in place.

There is a tremendous unmet need for professional services in these statistics. Older Australians have a lot of money and are worried about how it will be managed as they age.

Other demographics

Wills

A staggering 41 per cent of adult Australians, or 8.2 million people, don't have a will.[5]

Interestingly, a very large percentage of clients with current wills feel that their wills need to be updated or revised.

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Example 1: Executor sued

Myra lived in Western Australia and her estranged brother, John, lived in rural NSW. John died relatively quickly and she received a letter from a solicitor three weeks later informing her (to her surprise) that she was the executor of John's estate. The letter informed her that she should contact the children who were the named beneficiaries and begin the process of identifying and realising the assets of John's estate.

Myra had no idea where to start and was not able to get away from work for a couple of weeks but eventually tracked down his sons, flew east and began the process of collecting paperwork, superannuation information and bills.

Ultimately, this process took around 3.5 months, most of which happened from Western Australia. In that time, a local grass fire spread to John's house and burned it to the ground. Dismayed, Myra sorted through John's paperwork to find that the house insurance had lapsed six weeks after his death.

Myra contacted the insurance company to be told that the house was uninsured and uninhabited for 90 days, so they would not pay the claim.

Myra spoke to the solicitor to discover that as executor, she was legally

The problems that arose came from lack of information, not the lack of a will.

obliged to properly protect the assets of the estate. It is widely accepted that this means properly insuring estate property, such as houses and cars. Failing to have in place the appropriate insurance meant that she could be held legally liable for the value of the house.

Upon hearing of the fire, John's two children sought legal advice and took action against Myra for her "... failure to properly execute the duties of executor of the estate of the late John XXXX". Myra was unable to use the other assets of the estate to settle this lawsuit, as they 'belonged' to the beneficiaries.

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

In this example, the right legal document was in place. The problems that arose came from lack of information, not the lack of a will.

Divorce

Divorce rates in Australia are high and are getting higher:

- 50 per cent of first marriages;
- 66 per cent of second marriages; and
- 75 per cent of third marriages.

Intuitively, we understand that divorce is a very real problem in our society and a large diluter of wealth. The traditional client base of financial planners tend to be older with marriages that have stood the test of time. However, their children's marriages are very often a cause for deep concern. Quite simply, the risk that our clients' estate could be diluted through divorce is a deep fear that most of our clients hold.

Financial stress

With the recent property boom associated with the post GFC low interest rates, financial stress has increased amongst the generations under 50. Our clients worry for their children.

Pulling on data from the Australian Bureau of Statistics[6], RMIT[7] and the Australian Housing and Urban Research Institute[8] relating to house fires, causes of mortgage defaults on houses and financial stress, we can extrapolate some compelling statistics.

For every house lost to fire:

- 2.5 houses are in mortgage default due to illness or death.
- 22.5 houses are in mortgage default due to financial problems.

We would never recommend a client leave their house uninsured, nor fail to give advice about life insurance. However, the financial risk associated with our clients' children is more than 20 times greater than the chance their home will burn down.

Dementia and loss of capacity

It's a staggering figure: almost 1-in-10 Australians over the age of 65 have dementia[9], with this number growing to 3-in-10 Australians aged over 85.

This means dementia directly impacts families with a net worth of more than

$1,720 billion today, and is of particular relevance to the younger generations who take care for them. Overall, it is estimated that 1.2 million Australians are involved in the care of a person with dementia today. Let's take a look at Example 1 (p20).

Lethargy in the advice profession

In his book *Thinking Fast and Slow*, Daniel Kahneman discusses how human beings tend to make decisions using the information in front of them: 'What you see is all there is.' A more traditional saying holds that: 'If all you own is a hammer, then everything looks like a nail.'

Traditionally, financial advisers have a financial product focus and frame their service offering accordingly – a 'salary packaging' client, a 'TTR' client, a 'superannuation' client, a 'gearing' client. Product-based remuneration models taught practitioners to hone their skills to the sale of products.

The post FoFA remuneration framework demands practitioners focus on the needs and motivations of clients, rather than the sale of products.

In the example above, why did Myra find herself in the position of legal risk? Because no professional was incentivised to mitigate the risk. John's lawyer provided the will, John's accountant provided the tax return, and John's financial planner provided the investment advice. Yet, if you ask John what was most important to him, he would typically answer: "Family is most important. I don't want my death to be a burden to them."

Imagine a neighbour in their late 60's who was suddenly widowed and never having handled money, was now the executor of their husband's estate. In the real world they should ask the following types of questions:

- What information do I need?
- Who do I need to talk to?
- What questions do I need to ask?
- What is important?
- What can wait?

Redefining estate planning

The classic definition of estate planning is: The right money, to the right people, at the right time. For the most part, estate planning advice rendered to the bulk of Australians appears as:

1. Do you have a current will?
2. Do you have a Power of Attorney?
3. Do you have a Binding Death Nomination on your superannuation?

If the answer to any of the above questions is 'no', the traditional adviser responds with "...go and get one!".

The embedded assumption in this definition is that estate planning advice relates to the preparation of the key legal documents.

The estate of the average Australian is now massive and complex by comparison to prior generations. Ageing baby boomers and their parents are intuitively aware of the complexity and their impending loss of capacity and transfer of wealth, yet traditional solutions offered by professionals focus only on the control documents (Wills, PoA and PoG).

Estate planning services offered to clients should be broadened to include proactive information and guidance. The service offering should be built on:

1. The right legal instruments;
2. A detailed record of the information that is required to administer the estate; and
3. A personalised action plan to handle estate events.

So, perhaps a better definition of estate planning should be: The right money, the right information and the right guidance, to the right people, at the right time.

In the next article, we will examine common client problems and solutions, including:

- What does my family need to know if I'm not there?
- Protecting our children's inheritance from divorce?
- Protecting my grandchildren's inheritance?
- Enabling my children to take over when needed.

> Perhaps a better definition of estate planning should be: The right money, the right information and the right guidance, to the right people, at the right time.

Footnotes

1. Series - 65540DO001_201112 Household Wealth and Wealth Distribution, Australia, 2011–12

2. www.tradingeconomics.com/australia/gdp

3. ABS Series: 6416.0 Residential Property Price Indexes: Eight Capital Cities

4. http://static.uk-plc.net/library/cloudbuy/documents/research- reports/cloudbuy-elderly- worries-survey.pdf

http://www.telegraph.co.uk/news/health/news/10778168/Fear-of- old-age- becomes-acute-after-50- study-finds.html

5. www.uq.edu.au/swahs/Having%20the%20last%20word.pdf

6. www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/0061403922BF6F55CA2569110080BA2C/$-File/41020_2000.pdf

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8. www.ahuri.edu.au/publications/projects/p30529

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Gil Gordon CFP® is proprietor and senior adviser at RI Lower Hunter.

Riding the tailwinds

Despite continued political uncertainty coming out of the US and Europe, and a predicted rise in interest rates, investment managers remain cautiously optimistic for Australian equities as optimism around economic growth continues to build. Jayson Forrest reports.

Ask any investment manager to offer a performance view on the Australian equities market over the next 12 months, and it's a bit like asking which horse is going to win the Melbourne Cup in eight months time. It's a case of forget short-term forecasts and concentrate on the medium to longer term.

And despite the usual bumps along the way, it's this longer term view that investment managers remain relatively upbeat about, if somewhat cautious.

Morningstar's Australian Equities Portfolio Manager, Bryce Anderson, believes it's important to take a longer term view of investments, rather than basing forecasts on short 12-month timeframes.

"We're making long-term valuation-based decisions over a long-term investment horizon of 7-10 years," he says. "So, our long-term outlook for Australian equities is that they look expensive – both against its own history and the universe of equity assets that we model.

"Long-term, that is our outlook for Australian equities and that's based on high margins across the board that we think will mean revert, as well as a high multiple attached to the earnings at these levels," he says. "That could play out over the next year but more than likely it will play out over a number of years."

Like other managers, BlackRock's Head of Australian Fundamental Equities, Charlie Lanchester prefers to shy away from making any short-term predictions. However, as we head into 2017, he remains "reasonably cautious" in his outlook.

"The Aussie equities market has actually had a very good run over the last couple of months. Since November 2016, the overall market is up approximately 10 per cent, driven mainly by some of the large cap companies.

"However, as we look forward to the year ahead, the predicted earnings growth from some of these stocks are reasonably weak. We haven't really seen a lot of revenue growth over the last few years and a lot of the earnings that have been generated have been as a result of cost cutting in many companies," Lanchester says.

"So, when it comes to investment opportunities, what we're looking for are companies, particularly some of the mid and small-cap names, that have been reinvesting back into their businesses, while still paying relatively good dividends to investors. It's these companies we're expecting to see do better in the year ahead."

As the Head of Australian Equities at Maple-Brown Abbott, Dougal Maple-Brown is relatively bullish on the medium to long-term view of Aussie equities.

"Over the last few years, we have been telling people that depending on what long-term timeframe they may have, Aussie equities has done about 12 per cent per annum compound over the long haul," he says. "But over the medium-term, we think returns are going to be lower than that. Even so, they're still attractive in the current low interest rate environment."

Maple-Brown does agree that some Aussie equities, particularly at the top end of the range, are currently over priced, but he believes they still don't detract from the long-term performance and returns that Aussie equities have provided investors over past years.

Resources sector

As we head into the second quarter of the year, already there are some key themes shaping up for Aussie equities – both locally and globally – that planners need to consider in their clients' investment strategies.

Zenith Investment Partners' Australian Equities Senior Analyst, Quan Nguyen believes the resources sector is one to watch closely.

"Over the last 12 months, resources companies have bounced back from their lows and they have performed very well.

> "Many people see volatility as being a bad thing but volatility also brings opportunities."
>
> — Bryce Anderson

So, for the first time in a long time, they have returned to favour," he says.

Nguyen believes the stimulus from China has helped with that "bounce". "And with OPEC stepping in to regulate the supply of oil at the end of last year, that has helped oil prices as well."

However, while Lee Mickelburough, the Head of Australian Equities at Henderson Global Investors, agrees that last year's rally in commodities underpinned the strong rallies in the miners, with resource stocks gaining strong earnings momentum, he believes this rally will see a "looming correction" for commodities in 2017 "as output rises in response to higher prices".

But there is no escaping the fact that Australian equities is a very concentrated market. Therefore, Morningstar's Anderson concedes market performance is going to be reliant on primarily two sectors: finance with the big four banks, and resources with the major mining companies.

"You only need to look at 2016 and what happened in materials and what that has meant for the overall return of the market. A lot of the performance of these two sectors will really drive the overall returns," he says.

"In terms of thematics, one thing to watch

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"Our long-term outlook for Australian equities is that they look expensive – both against its own history and the universe of equity assets that we model."

— Bryce Anderson

are the themes that have played out over the past 4-5 years. There are companies where people have been willing to pay a high multiple for in Australian equities, which have delivered growth in a low growth environment. So, these companies are trading on very high multiples. But even in the past 12 months, we are starting to see these high multiples unwind somewhat, so that's something to keep an eye on," Anderson says.

"Another interesting thing to watch out for is with the major miners. They have done well over the past year in terms of price performance, so it will be interesting to see what they will do with those increased profits and what their behaviour is around capital allocation and whether they return capital to shareholders in the form of dividends. So, that's also worth considering."

Geopolitical

Nguyen also identifies a number of geopolitical uncertainties that will likely have an impact on the local market this year.

"There are still uncertainties around global developments like Brexit and the election of Donald Trump, which is likely to have an impact on the Australian market. Any rise in US interest rates, will have an impact here," he says.

"The fallout from Brexit will also have an effect on Australian equities. That's because even though we're talking about Australian stocks, these days, stocks are becoming more global; they just don't operate in Australia.

"As such, there are a multitude of external factors from other countries that have some sort of impact on Australian stocks."

Mickelburough agrees that the effects of the sweeping political upheaval felt in 2016 with the unexpected Brexit vote and the outcome of the US Presidential election, will continue to be felt globally in 2017. But he also adds to this the upcoming referendums and elections in Europe this year.

He expresses concern about increasing anti-establishment sentiment in a number of nations, and sees political risk likely to flow into Europe.

"A number of parliamentary elections are taking place throughout 2017 and as we have learned with Brexit and Trump, nothing is certain until the votes are counted. With an increased supply in commodities coming from already planned expansions and the natural market response to higher prices, we would expect commodity prices to moderate over the year," he says.

"We believe we have witnessed only the beginning of an unwinding of the yield trade and this is likely to continue into 2017 as optimism of a return to growth builds."

Maple-Brown agrees, saying that it only takes a little uncertainty somewhere in the world to provide the Aussie equities sector with "a bit of a wobble" as it adjusts.

"But in our view, these uncertainties, like the upcoming European elections and Trump, are likely to affect stocks that are more highly priced than the cheaper ones. There's a lot of expensive stocks in the market that can be knocked off their perch by any of these uncertainties," Maple-Brown says.

To best deal with market volatility, Morningstar's Anderson advises planners and investors to avoid "reacting to the news". "I think it's very important that you have a disciplined process to identify what is a good opportunity and whether all the fundamentals still stack-up," he says.

"Many people see volatility as being a bad thing but volatility also brings opportunities," he says. "If things haven't changed fundamentally and a price has fallen, you should be inclined to buy more, despite it feeling uncomfortable to do so.

"And that's what a disciplined process brings: it takes the emotion out of the decision and makes you think logically about what you should be doing. So, as a valuation-based investor, volatility can actually be your friend," Anderson says.

BlackRock's Lanchester agrees.

"We're going to see continued volatility around the likes of Brexit and the upcoming European elections. Investing on the basis of some of these macro-risks is incredibly difficult, but we are cognisant there will be volatility. At the moment, the market is relatively optimistic about the year ahead but we do see some risk around what Trump actually does, what Brexit actually means and the possibility of more instability in Europe as we see more elections over the coming year," he says.

However, he adds that 2017 is shaping up as a very different investment environment to the one that we have been used to for a number of years.

"If we do start to see some inflation coming through in the US, which there are clear signs of now, and if Trump does bring in tax cuts and fiscal spend to exacerbate this situation, I think we will see interest rates tick up maybe a little quicker than people expect in the US. That will have knock-on effects to the Australian economy, because to some extent, our banks still rely on offshore funding."

Indeed, over the last few weeks the market has already seen minor upward adjustments to some of the interest rates that the banks charge on their mortgage books, particularly with fixed rates, in response to the fact that their own funding has gone up.

"I think this is a very important theme in Australia because we have such high levels of consumer debt, which are mostly mortgage related. If interest rates do start to increase around the world, then that will potentially have an effect on the Australian consumer," Lanchester says.

"These uncertainties... are likely to affect stocks that are more highly priced than the cheaper ones."

— Dougal Maple-Brown

Chase for yield

Lanchester also identifies another theme that might play out in the market this year, which is the yield trade in the equities market.

"Some of these bond proxies, and particularly some of the more highly leveraged ones, will continue to come under pressure if interest rates go up, both in terms of the funding on the large amounts of debt they have in their businesses, but also pressure from a valuation point-of-view."

Nguyen agrees that the yield trade is worth watching.

"Everybody has been calling the end of it for a very long time now, but it seems to just kick along. Last year, a lot of the yield stocks ran into trouble, but they have rebounded again. So, in terms of how long this trend will persist for, is one thing to be wary off," he says.

"This chase for yield by planners and investors is certainly something to be aware of. You don't know when the bubble is going to burst."

Anderson agrees the chase for high yielding stocks has been one of the trends over recent years, whether it's the banks, bond proxies or AREITs. But he cautions these can all be very precarious trends, given that all it took was a catalyst, like Trump, to provide a shock to bond yields, which saw these high yielding stocks sold off.

"So, if you are going into a higher yielding stock, you need to look at the fundamentals and things like whether the dividend is sustainable and if the earnings are still there."

Anderson also cautions planners to be aware of drawdown risk.

"In terms of valuation, another thing investors should consider is the permanent impairment of capital; your drawdown risk," he says.

"When things are trading on a higher multiple and are more expensive, the likelihood of there being a drawdown from that valuation is higher. That's what we saw when yields in the US, Australia and worldwide moved. Those yield bond proxies, because they were on quite a high multiple, dropped like a stone. That's the drawdown. But by buying cheaper assets, you give yourself a better chance of avoiding those drawdowns."

Maple-Brown agrees, saying 2016 was definitely a year of two halves.

"For the first half of the year, it was business as usual for the growth stocks. But for the second half of the year it was the absolute opposite. Bond yields bottomed in Australian and globally," Maple-Brown says.

"And going into 2017, we see that second half of 2016 continuing. That's largely because bonds, which effectively had a 30-year bull run, bottomed around July/August last year and they have only just begun to tick up. In Australia, bonds are almost back to 3 per cent but 30 years ago they were 14 per cent. So, we are heavily underweight in those interest rate sensitive asset classes."

Opportunities

However, it's not all doom and gloom. Lanchester says he is still finding "interesting" businesses that have some cyclical tailwinds and reasonable earnings growth predicted for the next 2-3 years.

"So, I think there are still plenty of reasons to be positive on Australian equities - particularly given some of the dividend yields you can still receive, relative to a number of other asset classes," he says. "So, whilst we are cautious on some of the political risks and the fact that US markets are at all time highs, with interest rates likely to increase, from a fundamental point-of-view, we're still finding some really interesting investment opportunities."

Nguyen agrees. He is excited by the interest in, and growth of, micro-cap funds and market-neutral type long/short funds.

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"Micro-caps act like semi private equity, so they are not going to be as impacted by global GDP or even Aussie growth to an extent. They are uncorrelated to broader market movements," he says. "In terms of market neutral, it's about different return streams that don't depend on whether the market goes up or down."

While Anderson believes Australian equities look expensive, he agrees that doesn't mean there aren't opportunities in this asset class. However, he admits that it's becoming increasingly difficult to identify those opportunities.

"I do see select opportunities in the healthcare and consumer discretionary sectors. In these sectors you get companies that are differentiated and are more in control of the products, rather than being price takers. In healthcare, you don't get roaringly cheap companies, but you get good companies that are reasonably priced. ResMed is one such company."

For BlackRock's Lanchester, his three best high conviction themes are bond proxies, businesses with solid earnings potential, and the technology sector.

"Bond proxies have potentially some good downside over the year ahead. Secondly, we're looking to invest in businesses that either have the internal ability to fix themselves or have exposure to some long-term cyclical tailwinds.

"Falling into that bracket would be the sectors that have exposure to improving demographic trends, like the retirement of the baby boomer population. So, we're attracted to some of the healthcare companies and residential land lease community stocks involved in retirement living. We think they have some very good growth ahead of them and potentially trade at a much lower cap rate."

And thirdly, Lanchester identifies the Australian technology sector, which he believes will significantly grow over the next 5-10 years.

"We've got a really good base of businesses coming through. We've got a much more vibrant venture capital sector than we did five years ago. And we've already seen a couple of billion dollar businesses list on the ASX. So, we're very focused on picking some of the winners in that sector because it will become a much larger part of the market in the next decade."

"I think there are still plenty of reasons to be positive on Australian equities – particularly given some of the dividend yields you can still receive..."

— Charlie Lanchester

Maple-Brown believes investors should never underestimate the one "huge" advantage Aussie equities have over other asset classes – franking.

"We believe franking generally adds about 1 to 1.5 per cent to an Aussie equities portfolio. No other asset class can deliver that, which gives Aussie equities a big advantage over other asset classes," he says.

Maple-Brown still favours resources over banks and industrials. "Resources had a good run last year coming off the previous four to five years which were poor. Valuations still seem reasonable."

Looking outside

And what doesn't excite? For Maple-Brown, the least attractive sector to him is industrials.

"The median PE for industrial stocks is still around 19x, which is still a high price to pay. As a sector, we are underweight industrials, and the banks sit in the middle; they are not as attractive as resources."

Given Anderson's valuation for Australian equities being reasonably low, it's no surprise that he remains cautious on the big four banks and materials.

"I'm particularly wary of materials, given the rebound in commodity prices over the past year that has increased the valuation these companies are trading on. I'm also sceptical of the stimulus that China has done over the past year. Our ability to forecast what's going to happen in China is quite low. So, we're happy to avoid those areas of the market," Anderson says.

"Therefore, I think it's important for advisers and investors to look outside Australian equities, and I think emerging markets should be considered. Taiwan and South Korea are perfect examples. The valuations in emerging markets is more compelling and while they are not very cheap themselves, against their own history, they are okay, and against the rest of the universe, they look quite attractive – not only from a valuation perspective but also from a diversity perspective.

"For example, there are a lot of regional and global leading IT companies in emerging market equities that we simply don't have with Australian equities. So, it's not just about the return but providing broader investing opportunities for investors."

Anderson's final thought to investors is to remind them that Australian equities is only a small part of a much bigger pond, "so it's worth looking outside of Australia to get a more diverse exposure, especially when markets are expensive".

MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

INVESTMENT INSIGHTS:

"Value is dead – long live Value!"

2016 was a year of extraordinary change. Donald Trump won the race for the White House, Britain voted in favour of Brexit, Mick Jagger became a father again at 73 and Bob Dylan won the Nobel Prize for literature! Oh, and value investing resurrected itself after appearing to be down for the count – and in our view is set to dominate the "bout" for some time to come.

Whilst value investing has had periods of success over recent years, in general it has struggled since a period of strong performance post the GFC. This has been a period dominated by ever falling interest rates and a search for yield, giving cause to a momentum driven trade favouring bond proxies and growth stocks. This saw numerous new boutiques open up in this segment of the market and significant performance track records were established. It is difficult to think of many (any?) value firms that set up business over this period – "value" was seemingly dead.

These market distortions reached a peak during 2016 including the impact of interest rates at previously unseen levels, resource valuations at generation lows (in terms of price/book ratios) and price/earnings multiple spreads between expensive and cheap stocks that reached levels beyond those seen in any recent cycle. When all these factors are taken into account, this was arguably the most extreme set of valuation factors in a generation.

A review of consultant performance tables highlights that "value" turned the corner in August and despite enjoying only 6 months of better conditions, most value managers have enjoyed remarkable gains. This has come on the back of a strong recovery in resource stocks but also in the prices of out of favour industrial stocks and some recovery in financials. In our view this has some way to go.

Equally important though, we have seen a plethora of earnings downgrades in the "high flyer" space; those stocks that have dominated the performance tables for years. To date this has largely been confined to small caps (stocks such as Aconex, Bellamys, Blackmore and Vocus) but larger caps have not been exempt (e.g. Brambles). More worrying for this segment of the market however is that many of the larger cap, premium priced stocks are also beginning to feel the pressure of unrealistic expectations e.g. Domino's Pizza and Ramsey Health Care, whilst the bond proxies (e.g. REITS) are feeling the winds of change.

By and large value managers have only enjoyed episodic periods of outperformance since the GFC. Is this current phase another short burst of optimism? We think not! In our view the 30 year bull market in interest rates is over and investors are too complacent on the potential for rates to move significantly higher. Should this occur – growth stocks and bond proxies are likely to continue to suffer. Granted there is nothing particularly special about the type of stocks value managers currently hold – but expectations just got way ahead of reality elsewhere and too negative in the value segment of the market. We think a seminal change is underway.

"Value is dead – long live Value!"

Investment insights – brought to you by Dougal Maple-Brown, Head of Australian Equities at Maple-Brown Abbott

CGT and inheriting the principal home

WILLIAM TRUONG
IOOF

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- The two-year rule
- Cost base of a property
- Joint tenant ownership

Financial planners are often asked to assist clients who are the beneficiaries of a deceased's estate. It's a challenging task that's often complicated by the need for an objective conversation with people who are facing a difficult time.

In these instances, it's helpful to understand the special taxation rules relating to homes acquired under a deceased estate, so your client can be aware that their decisions may either incur or minimise capital gains tax (CGT).

This article looks at the implications of CGT on the beneficiary's inheritance of the main residence upon the death of the owner.

Generally, no CGT applies when a deceased person's assets are distributed to their beneficiaries. From the ATO's perspective when someone dies, a capital gain or loss is disregarded when a property passes to:
- the deceased person's executor or other legal personal representative.
- the deceased person's beneficiary.
- from the deceased's legal personal representative to a beneficiary.

However, there may be CGT implications when the executor or beneficiary sells the inherited asset to a third party.

Where a former home is included in the deceased's estate, it's important to obtain the benefit of the CGT exemption which applies to the main residence, or to preserve the CGT exemption which applies to pre-CGT assets.

The two main factors that affect the CGT exemptions are related to the answers to these questions:

1. When did the trustee or beneficiary sell the property?

If it was within two years of the deceased's death, it will be easier to obtain the exemption.

2. When did the deceased acquire the property?

If it was before 20 September 1985, an exemption may be available as this was a pre-CGT asset. In this case, CGT exemption applies irrespective of whether the deceased used the property as a main residence or not. If it was acquired after 19 September 1985, the conditions for exemption are much stricter.

Two-year rule

If the property was acquired by the deceased prior to 20 September 1985 and sold within two years of the date of death, the property is exempt from CGT. This exemption applies even if it was not the deceased's main residence or if the dwelling is rented out during the two-year period after death.

If the property was acquired by the deceased after 19 September 1985 and sold within two years of the date of death, the property is exempt from CGT only if:
- it was the deceased's main residence at date of death; and
- it was not used to produce assessable income at that date.

When assessing this two-year period, where the property is sold under contract, settlement (rather than exchange of that contract) must occur within the two years.

Example

Ross purchased and moved into his main residence on 26 October 1986 and occupied it until his death on 16 May 2013.

His beneficiary, Monica, rented the home to a third party shortly after his death, selling it on 10 April 2015.

As the home was Ross's main residence throughout the period of ownership and as it was sold within two years of his death, it is wholly exempt from CGT on sale, notwithstanding the fact it was rented out after his death.

Cost to the beneficiary of acquiring the property

For the beneficiary acquiring a property the deceased had owned, there are special rules for calculating the cost base of the property. These rules apply in calculating any future capital gain or capital loss when a CGT event happens to the property.

The cost base of a property or its acquisition cost is its market value at the date of death, if the property:

- was acquired by the deceased before 20 September 1985; or
- passes to the beneficiary after 20 August 1996 (but not as a joint tenant), and it was the main residence of the deceased immediately before their death and was not being used to produce income at that date; or
- passes to the trustee of a Special Disability Trust.

In any other case, the cost base is the deceased's original cost base.

Clients are advised to contact the deceased's tax adviser to obtain the relevant details.

Special rules where home owned as joint tenants

While an asset owned as joint tenants automatically passes to the survivor on the death of the other joint tenant, CGT law treats them as tenants in common. This may result in a deemed acquisition/ disposal of the joint tenant's share.

Where a home was acquired before 20 September 1985 and one joint tenant dies after that date, the survivor is deemed to have acquired the deceased's share after 19 September 1985.

Example

Con and Rachel purchased their home on 8 August 1983 as joint tenants. Rachel died on 20 January 2015.

While Rachel's share of the home automatically passed to Con on her death, for CGT purposes, he is deemed to have acquired half the home on 20 January 2015 for its market value on that date.

Case study

Ted will soon inherit his mother's main residence. The former family home was purchased for $100,000 in the eighties, and is now valued at $1 million. Ted is an only child and the only living dependant.

What are Ted's options under the following scenarios?

Scenario 1: Ted's mother bought her home before 20 September 1985

If Ted's mother bought her home before 20 September 1985 and if the property was his mother's main residence at the date of death, what are the CGT implications for Ted if he plans on disposing of the property:

- within two years from the date of death of his mother?
- after two years from the date of death of his mother?

If Ted sells it within two years from the date of death, there are no CGT implications, as this is originally a pre-CGT asset.

If Ted sells the home after two years, then if the property was his main residence from his mother's death until his ownership period ends, there would be no CGT.

If he didn't live in the home, CGT may apply with the cost base set at market value at the date of death. There is no CGT pro-rata exemption for the first two years.

For the beneficiary acquiring a property the deceased had owned, there are special rules for calculating the cost base of the property.

In this case, if Ted sells it for $1.1 million three years after death, there will be a net capital gain of $50,000 ($1.1 million - $1 million) x 50 per cent taxed at his marginal tax rate.

TIPS: *Ted should be advised to obtain the market value of the inherited property as at the date of death of his mother.*

There may be many practical reasons why a sale of property may not fall within the two-year disposal concession, even where the original intention was to sell within the two-year window.

Scenario 2: Ted's mother purchased her main residence on or after 20 September 1985

Continues on page 30

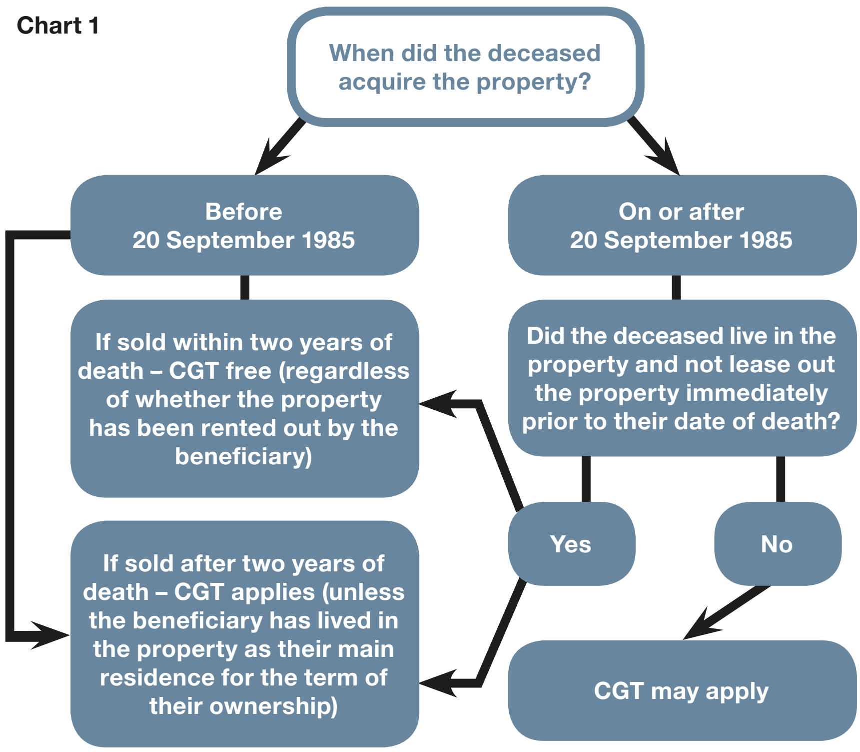
While an asset owned as joint tenants automatically passes to the survivor on the death of the other joint tenant, CGT law treats them as tenants in common.

If the property was his mother's main residence at the date of death, what are the CGT implications for Ted if he plans on disposing of the property:

- within two years from the date of death of his mother?
- after two years from the date of death of his mother?

For the two-year disposal concession period to apply, because this was originally a post-CGT asset, there is a requirement that Ted's mother had lived at home and had not rented out her home on her date of death. So long as he sells it within this concessional period, it's irrelevant whether he has lived in the home or has rented it out during his period of ownership.

Chart 1



If Ted sells the property after two years, then CGT may apply with the cost base being the same as his mother's original purchase price. There is no CGT pro-rata exemption for the first two years and the 50 per cent general CGT discount applies from her original date of purchase.

What if the property was income producing at the date of his mother's death?

As the property was a post-CGT asset and income producing at date of death, Ted will not be entitled to the two-year concession period.

CGT applies on sale with the cost base the same as his mother's original purchase price. The 50 per cent general CGT discount applies from her original date of purchase.

What if the property was rented out by Ted?

CGT does not apply, so long as he sells within the concessional two-year period. This is except if Ted's mother did not live in the property at her date of death and rented it out. That is, since the property was originally a post-CGT asset and income producing at the date of her death, CGT may apply.

Chart 1 shows the CGT obligation based on the exemption rules.

Watch out for the traps when it comes to the family home

A large part of intergenerational wealth transfer will involve the family home. The tax concessions from home ownership shouldn't be ignored or assumed to carry across from the deceased to the surviving beneficiary. Understanding the issues and alternate options available will assist clients and their beneficiaries to ensure that their estate planning goals and objectives can be met tax efficiently.

While taxation should not be the main reason for how clients make their decision with respect to their family home, given the family home may be one of the largest assets for clients, paying attention to the taxation concession available helps preserve the value of this asset for clients and their beneficiaries.

Clients are encouraged to keep adequate proper records for tax purposes, and make these records available for the beneficiaries who they intend to inherit the property. This is good practise, even if their intention may be to reside in their home for the full-term of their ownership.

For beneficiaries who stand to inherit the home, knowledge of when the deceased purchased their home, and understanding how the two-year concessional period operates, can bring a valuable tax concession to be mindful of.

While taxation should not be the main reason for how clients make their decision with respect to their family home... paying attention to the taxation concession available helps preserve the value of this asset for clients and their beneficiaries.

William Truong, Technical Services Manager, IOOF.

QUESTIONS

1. According to the article, which tax is most concerning for those who inherit the family home?

a. Stamp duty.
b. Capital gain tax (CGT).
c. Land tax.
d. First home owners grant.

2. Which of the following is correct about CGT?

a. Deceased estate is liable for CGT on date of death.

b. Deceased estate is liable for CGT when former home is passed onto the beneficiary.

c. Beneficiary who inherits the home is generally not liable for CGT at the date of death.

d. Beneficiary who inherits the home is generally liable for CGT at the date of death.

3. Which of the following is the most important question a beneficiary should be asking in relation to the property they have inherited?

a. Was it originally purchased by the deceased pre 20 September 1985?

b. Has the deceased ever leased out the property?

c. How many years did the deceased live in the property?

d. Did the deceased live in the property at the date of death?

4. The 'two-year' rule is relevant to exempt CGT under which situations below?

a. The home was originally purchased by the deceased post 20 September 1985 and sold within two years of their death.

b. If the beneficiary intends to live in and sell the inherited property within two years of inheriting the property.

c. If the beneficiary lives in and sells the inherited property within two years of inheriting the property.

d. The property will be exempt from CGT if it is sold within two years of the date of death and it was acquired by the deceased prior to 20 September 1985.

5. Which of the following statements is correct regarding the cost base of the property?

a. If the home was originally purchased by the deceased pre 20 September 1985, the cost base is the market value at the date of death.

b. If the home was originally purchased by the deceased pre 20 September 1985, the cost base is the deceased's original cost base.

c. If the home was originally purchased by the deceased post 20 September 1985, the cost base is the market value at the date of death.

d. If the home was originally purchased by the deceased post 20 September 1985, the cost base is the market value when the beneficiary receives the property.

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

Superannuation reforms and impact on insurance advice

BRENDAN BOWEN
BT

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- Superannuation legislation update
- $1.6 million super transfer balance cap
- Concessional contributions cap reduction
- Catch-up concessional contributions

In November last year, Parliament passed legislation to implement the Federal Government's controversial superannuation reforms. The reform package was announced in the 2016-17 Budget and had been amended following a period of extensive consultation.

Advisers who provide insurance advice will need to properly understand the impact of these measures, both when making new recommendations on superannuation policy ownership, and reviewing advice to existing clients with insurance cover inside super.

The legislation covers the following superannuation initiatives:

- introducing a $1.6 million transfer balance cap;
- lowering the annual concessional contribution cap to $25,000;
- widening the scope of tax deductions for personal contributions to employed persons;
- lowering the threshold at which high income earners pay additional contributions tax (Division 293 tax) from $300,000 to $250,000;
- catch-up concessional contributions;
- lowering the annual non-concessional contribution cap to $100,000;
- allowing death benefits to certain beneficiaries to be rolled over to commence a pension;
- removing the anti-detriment payment benefit;
- removing the tax exempt status of earnings within transition to retirement income streams;
- increasing the thresholds for the spouse contribution tax offset; and
- introducing a Low Income Superannuation Tax Offset (LISTO).

The Government will also seek to enshrine the objective of superannuation.

The provision of life insurance advice will almost always require consideration of policy ownership. For individuals, this will normally require a decision to be made between superannuation and non-superannuation, or a combination of both. Depending on a client's circumstances, some of these measures may influence the decision to establish a new (or maintain an existing) life insurance policy within superannuation.

In this article, we individually consider the measures which are most significant to insurance advice.

$1.6 million superannuation transfer balance cap

For many clients, the $1.6 million cap on pensions is the measure which will most significantly affect their insurance arrangements. From 1 July 2017, a $1.6 million lifetime cap (called a transfer balance cap) will apply on the total amount of accumulated superannuation an individual can transfer into the retirement phase. Importantly for life insurance strategies, this will include a death benefit pension received by a beneficiary.

An exemption applies for pensions commenced with contributions from a structured settlement for personal injury, but this does not include proceeds from a life insurance policy. The rules are also modified for child pensions; while not simple, the good news is that a child pension will not generally affect a child's transfer balance cap when they become an adult.

In general terms, when a person commences a pension, they will establish what is known as a transfer balance account – this account is subject to the cap. Amounts credited towards an individual's transfer balance account include existing pension balances as at 30 June 2017 and pensions commenced from 1 July 2017 (including reversionary pensions).

Insurance policies held within accumulation phase, which are subsequently transferred into a pension (or death benefit pension), will therefore count against the individual's (or beneficiary's) cap. Subsequent commutations from pension accounts will reduce a person's account balance.

Amounts in the transfer balance account that are in excess of the transfer balance cap will need to be withdrawn from the superannuation system, or rolled back to accumulation phase. In the case of a death benefit, however, excess amounts can only be taken as a lump sum. This is because the legislation that requires a death benefit to be 'cashed' (i.e. taken as a lump sum or pension) has not been modified.

Example

Adrian (aged 48) has $800,000 in accumulation phase that holds his term life insurance policy (with a total and permanent disability rider) of $1 million. He dies in March 2018 and has nominated his spouse, Hannah (aged 46), as the sole beneficiary of his death benefit. The maximum amount that Hannah can elect to take as a death benefit pension will be $1.6 million. She must cash out the remaining $200,000 as a lump sum – which will be tax-free to her as a spouse.

Importantly, however, this will mean that (unless subsequent commutations reduce her transfer balance account) Hannah will be unable to commence a pension with her own superannuation balance when she eventually retires. This is because she has used up her transfer balance cap. Any indexation in the general transfer balance cap will only apply to the unused portion of her cap, which in this case is nil.

Notwithstanding the introduction of this cap, any lump sum death benefits are still tax-free to certain dependant beneficiaries, meaning superannuation ownership can still be a very powerful strategy. Advisers will simply need to be aware of the limitations, if any, resulting from the cap.

Where the life policy is for the benefit of children and a child pension is intended, advisers will need to consider a number of factors, including the number of children, whether the parent has an existing pension (or previously commenced one), and how much of the benefit is intended to be paid as a pension.

Generally, where the deceased parent did not have a transfer balance account (e.g. never commenced a pension), the child will be allowed to receive a death benefit pension up to the general cap of $1.6 million (2017/18). For multiple children, however, this cap is divided equally among the children. This would mean that four children would each be able to commence a death benefit pension up to a maximum of $400,000 (2017/18). The remainder would need to be cashed as a lump sum.

The rules, however, are entirely different where the parent had a transfer balance account. The cap that applies to each child will be the proportion of the parent's super interest that was in pension phase, which is subsequently paid to the child as a death benefit pension.

The deceased parent will have created a transfer balance account if they had an existing pension, or had previously commenced one which was subsequently exhausted. In this scenario, a child pension can only be paid from an existing balance in pension phase, and not from accumulation phase (unless the child has an unused cap from the death of another parent). An insurance policy in these circumstances is attributable to the parent's accumulation phase interest, and could therefore only be paid to the child as a lump sum, albeit tax-free.

A child's 'modified' transfer balance cap will cease upon the child pension ceasing, i.e. at age 25, or when the balance is exhausted. Upon the child commencing their own pension at a later date, a second transfer balance will apply that will be subject to the normal rules discussed above.

For individuals generally, where a person has exceeded their cap, the super fund trustee will be directed and required by the Australian Taxation Office (ATO) to commute the excess amount. An individual will have the option to transfer any excess amount back to the accumulation phase (unless receiving a death benefit), or withdraw a lump sum (if they meet a condition of release).

Reduction in the concessional contributions cap

From 1 July 2017, the annual cap on concessional super contributions will be reduced to $25,000 – currently $30,000 for those under age 49 at the end of the previous financial year, and $35,000 otherwise (2016/17).

The reduction in the concessional cap may affect individuals who have insurance policies structured through super and are close to or have reached their concessional limit.

It is also worthwhile to note that employed individuals with income exceeding $206,480 (the maximum contribution base for 2016/17) would be receiving at least $19,616 in compulsory super contributions (super guarantee) this year – only $5,384 below the looming $25,000 cap. This margin will be even less from 1 July 2017 (when the maximum contributions base increases), leaving little room for additional contributions to fund retirement savings and/or insurance.

Claiming a tax deduction on personal super contributions to employed persons

Currently, to claim a tax deduction on a personal superannuation contribution, a person must (among other criteria) earn less than 10 per cent of their total income from employment. This rule means that those who are mostly self-employed, but earn 10 per cent or more of their income from employment, cannot make personal deductible contributions. Additionally, those who want to increase concessional contributions, but work for an employer that does not offer the ability to salary sacrifice, are disadvantaged.

From 1 July 2017, this rule will be removed, allowing access to tax deductions on personal superannuation contributions

Continues on page 34

to all individuals, regardless of the level of income derived from employment (assuming all other criteria are satisfied).

One of the main advantages of structuring insurance through super is the ability to make concessional contributions into super, thereby reducing personal taxable income. Concessional contributions are generally subject to tax at 15 per cent upon entry into the fund, however, this can be offset by the tax deduction available to the fund for payment of insurance premiums, making the strategy tax-effective both at the individual and fund level.

For clients who currently break the 10 per cent rule, or employee clients who cannot salary sacrifice, the measure will make it easier to support super-owned policies in a tax-effective manner. It will also make it easier for employee clients to maintain insurance-only super policies through contributions, as salary sacrificing an exact premium amount can often be problematic.

Lowering the '30 per cent tax' threshold

From 1 July 2017, the income threshold at which an additional 15 per cent tax is levied on concessional superannuation contributions will be lowered from $300,000 to $250,000.

This additional tax, known as Division 293 tax, applies when a person's income, plus certain super contributions, exceed $250,000. It applies to the amount of concessional contributions in excess of $250,000, but does not apply to excess concessional contributions. A client who incurs this tax will have the option of paying it either directly or from a nominated super fund.

This measure may affect high income individuals who make concessional contributions to fund their premium payments. For those on the top marginal tax rate of 47 per cent (2017/18, including Medicare levy), paying 30 per cent tax on contributions still represents a 17 per cent tax saving.

However, this tax benefit, enjoyed while holding the policy, needs to be weighed against potential tax liabilities on death or disability payments from the superannuation fund. This is especially true given the abolition of the anti-detriment payment (discussed below) and the introduction of the transfer balance cap.

Catch-up concessional contributions

Individuals with super balances of less than $500,000 on 30 June in the previous financial year will be able to utilise unused portions of one or more of the previous five years' concessional contribution caps.

As unused cap amounts will only begin to accrue from 1 July 2018, the earliest that any unused cap amount can be used is in the 2019/20 financial year. Unused cap amounts will operate on a rolling five-year basis, where they are used from the earliest to latest year.

An individual's super balance includes their accumulation account balances, pension transfer balance, and rollovers in transit.

This will allow individuals with fluctuating work patterns to make additional concessional contributions, in excess of the annual cap (likely to be $25,000 in 2019/20), without incurring the excess concessional contribution charge, or impacting the non-concessional contribution cap.

The measure will mainly benefit women and carers who engage in part-time work or are periodically absent from the workforce. It will allow individuals to increase their super balance more rapidly than they would if restricted by the standard annual concessional cap, while still taking advantage of the tax concessions available when funding insurance inside super.

Non-concessional contribution changes

From 1 July 2017, the annual non-concessional contribution cap will be reduced from $180,000 to $100,000, with modified bring-forward provisions still available, dependent on the superannuation balance at the end of the previous financial year.

In addition, non-concessional contributions can only be made by individuals with total superannuation balances of less than $1.6 million (indexed). This restriction does not prevent balances from exceeding $1.6 million through non-concessional contributions; rather it determines whether an individual is eligible to make any non-concessional contribution in a particular year.

These measures may impact the attractiveness of insurance inside super for certain individuals, especially where they are relying on the ability to make non-concessional contributions to support their superannuation assets for retirement.

Further, where disability claim proceeds are paid from a super owned policy, the strategy of withdrawing and re-contributing these proceeds back into super will be significantly limited. This strategy was sometimes employed to achieve greater tax effectiveness when subsequently commencing a pension; or where a death benefit was expected to be paid to a non-tax dependant, such as an adult child, at a later date.

The measure will also make harder the use of insurance to provide liquidity to SMSFs.

With ATO pronouncements in 2014 preventing cross insurance arrangements within an SMSF, some members (with lower liquidity needs) have been able to solve liquidity problems by cross-insuring outside of the fund, and making non-concessional contributions from the insurance proceeds to provide the required liquidity. A lower non-concessional cap will, for many SMSFs, make this particular solution unworkable.

Death benefits

To facilitate choice of provider for beneficiaries, the legislation has been amended to allow a super death benefit to be rolled over (where a beneficiary is eligible to receive a pension) and not be treated as a contribution to the receiving fund.

This change will bring great flexibility to certain beneficiaries, who will be able to choose their death benefit pension provider, or access a death benefit pension if the deceased member's fund does not offer one. Importantly, however, these rules will not change the fact that a death benefit cannot be retained in accumulation phase. Any amounts rolled over to another fund will be required to be taken as a lump sum or pension from that fund.

Anti-detriment provision

The tax deduction available to superannuation fund trustees to offset the anti-detriment amount will no longer be available for death benefits paid, where the individual dies on or after 1 July 2017, or the payment is made after 1 July 2019.

Currently, SMSF trustees may, if structured correctly, utilise insurance to provide funding for the anti-detriment payment, to alleviate cash flow issues in the period between payment of the anti-detriment amount and receipt of the tax deduction. This strategy will now become redundant. The trustee could still make an additional payment upon death that is funded through insurance, however, this would be akin to a standard insurance inside super arrangement.

More broadly, the removal of the anti-detriment provisions will need to form part of the overall tax analysis, when deciding between super and non-super ownership of a life policy.

Enshrinement

Although part of the overall package of superannuation reforms, a separate bill will seek to enshrine the primary objective of the super system in law, and require that any future bill or regulation relating to super is compatible with this objective.

The proposed primary objective of the super system is to "provide income in retirement to substitute or supplement the Age Pension". This means that the role of the super system is to help individuals support themselves by providing income to meet their expenditure needs in retirement.

From an insurance advice perspective, the requirement that all future law is aligned with a primary objective, will provide comfort to many clients on the sustainability and stability of super as an ownership structure in general.

Summary

The reforms will clearly make super-owned insurance more attractive for certain clients (especially those with fluctuating work patterns), and less attractive for others.

These reforms have been the subject of significant debate, and public awareness about them is generally high. This will give proactive advisers an opportunity to better engage with new and existing clients on the reasons for a particular insurance recommendation in the context of this big news item.

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

QUESTIONS

1. What types of clients will be able to claim a tax deduction on personal contributions to super, made from 1 July 2017?

a. Self-employed,
b. Retired or unemployed,
c. Employed,
d. All of the above.

2. The reduction in the concessional contributions cap from 1 July 2017 may be offset for some clients through another Federal Budget proposal. This is the:

a. ability for individuals with super balances of less than $500,000 to make catch-up concessional contributions (from the 2019/20 financial year).
b. lowering of the income threshold for application of additional contributions tax for very high income earners (Division 293 tax).
c. $1.6 million transfer balance cap.
d. enshrining the objective of superannuation.

3. Amounts credited towards an individual's transfer balance account will include:

a. existing pension balances as at 30 June 2017.
b. pensions commenced from 1 July 2017.
c. reversionary pensions received by a beneficiary, and death benefit pensions received by a beneficiary.
d. All of the above.

4. The non-concessional limit from 1 July 2017 will be:

a. $500,000 lifetime limit only.
b. $100,000 annual limit only.
c. $100,000 annual limit with bring-forward provisions for individuals under 65-years-old.
d. $100,000 annual limit with bring-forward provisions for anyone eligible to contribute.

5. From 1 July 2017, the income threshold for additional contributions tax for very high income earners will reduce to:

a. $300,000,
b. $280,000,
c. $250,000,
d. $200,000.

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

Future proofing your business

Gihan Perera believes 'transdisciplinarity' is the number one skill that will help planners future proof themselves and their businesses to stay ahead of the game.

I have TPD insurance with AIA. That's no big deal, of course – thousands of Australians are insured with AIA. But an interesting feature of my AIA insurance is that I get a 10 per cent discount on all my Qantas domestic flights. As a professional speaker who travels a lot, that is a big deal!

This is a win-win partnership: I get cheaper flights and AIA gets a loyal customer. But is there a loser? Yes! Think about the travel industry, where most travel agents struggle on margins far lower than 10 per cent.

And now they face competition not just from inside their industry, but from a completely unexpected sector.

More and more businesses are facing similar scenarios: Their biggest competitors (the 'disrupters', if you like) aren't the traditional big players in their industry, but come from completely outside their industry.

Accenture's Technology Vision 2016 survey of Australian CEOs reported that 86 per cent of Australian businesses expect rapid or unprecedented technology change in the next three years. That's not surprising, but it might surprise you that only 30 per cent of them think the greatest risk comes from established competitors. Most expect – in fact, they know – the biggest changes will come from new players, including unexpected disruptions from other industries.

The same applies to financial planning. We know already how technology is transforming the financial services sector – with things like automated advice, bitcoin and fintech. How can we possibly stay ahead of the changes that affect us?

Learn transdisciplinarity

The solution is to develop the skill of 'transdisciplinarity' – one of the 10 skills the Institute for the Future identified as key skills for the future workforce. In brief, transdisciplinarity involves applying ideas, knowledge and expertise across different disciplines and industries. In practical terms, it means you regularly look up from the narrow, highly-specialised focus of your day-to-day work and take a broader perspective.

This is a skill you can develop both for yourself and your team. It's simple – and easy – but you do need to commit to it. It involves four steps:

1. Scan the environment: Look out for new trends and new technology, especially from outside your industry.

2. Share ideas: Create an environment for people to share ideas and build on them.

3. Connect to your business: Find ways to connect external ideas to your business.

4. Embrace the change: Adopt the best ideas and start using them.

Scan the environment

Scan the environment for news, technology, and interesting trends that could affect your business.

There's an old saying that there are three kinds of people: Those who make things happen, those who watch what happens, and those who say, 'What happened?'.

Of course, the people who say that want you to be in the first group – those who make things happen. But there's a lot of value in being in the middle group as well: just watching what happens. Instead of feeling overwhelmed by information overload, use it as an opportunity to learn from many sources. Find trusted sources in the industry, but also expand your scope to other industries and broader sources.

This approach even has its own name: your Personal Learning Network or PLN. Offline, this includes peers in a mastermind group, mentors and trusted friends. Online, it includes the blogs you read, newsletters you subscribe to, podcasts you listen to, YouTube channels you watch regularly, LinkedIn groups, and web sites you visit frequently.

Share ideas

Share these ideas with your colleagues and staff, and encourage them to share ideas with you and each other.

That's easy to say, but also easy to forget – especially when things get busy. So create an environment that encourages this sharing:

Time: Set aside time regularly – for example, at weekly staff meetings – for people to share these ideas.

Place: Use an online forum – for example, a private Facebook group – for people to share, comment, and expand on ideas.

People: Create or join groups that stimulate new ideas and spark interesting conversations. For example, I host a monthly business book club with people from different industries – including education, health, financial services, law and engineering.

Connect to your business

As a team, find ways to connect external ideas to your business and your industry. This is the innovation step, and often the most interesting and engaging.

For example, when I spoke at last year's FPA Professionals Congress about 'The Future of Leadership', we applied this to the financial planning industry, like this:

You can imagine this scenario in the near future:

– Artificial Intelligence software will collect big data and use predictive analytics to design customised financial plans (This is 'robo-advice', of course).

– Clients use gamification (like Pokémon Go did) to motivate and reward them for keeping to their plan.

– They use virtual reality to create and 'step into' future scenarios.

– When making decisions in daily life, augmented reality software helps them stay on track with their plan and goals.

– Genetic mapping before birth can guide the planning process even more precisely.

All of this technology is available now – it's just not connected up that way yet. Some of it (like robo-advice) is already infiltrating the world of financial advice, so it's already making waves. But the rest isn't far behind.

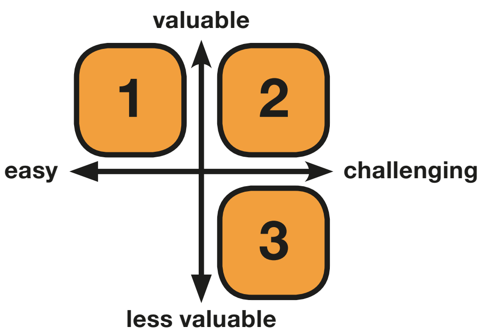
Embrace the Change

Now it's time to adopt these ideas and start using them!

Of course, some of these ideas are impractical – because they are too big, ahead of their time, or require too much investment for too little return. It makes sense to put those ideas on the back burner, and return to them later (if at all).

When you consider all your ideas, you will find some will naturally seem more valuable (that is, have a higher impact) than others. Some of them will also be easier than others. This gives you two factors to consider when setting your priorities.

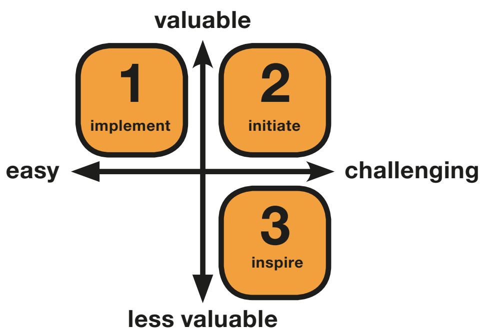
I suggest you prioritise in this order:



In brief: Start with simple things for quick wins, then tackle some more challenging things, and then take on at least one wild and crazy idea.

Put another way, you will implement, initiate and inspire:

- *Implement:* Build momentum by looking for easy things that lead to 'quick wins'.
- *Initiate:* Identify some more challenging things you can't complete immediately, but are worthwhile projects.
- *Inspire:* Find at least one big thing that might even seem crazy to most people, but you think is worth pursuing.



Ignore the bottom-left quadrant: the things that are easy to do but don't really add value. These are the Bright Shiny Objects that come your way – whether it's new technology, the latest management fad, or a new business superstar everybody wants to emulate. It's easy to be distracted by them, but don't be tempted by them unless they add real value.

What will you do?

If you follow this process, you will generate some interesting ideas for your business. But don't just settle for ideas – put them into action. Innovation is applied creativity, and it means getting things done.

If you truly want to be fit for the future, become a 'transdisciplinarian' to stay ahead of the game!

Gihan Perera is a futurist, conference speaker, author and consultant who gives leaders a glimpse into what's ahead, and how they can become fit for the future.

Aged care residents and home rental

The Government has removed the income and assets test exemptions for aged care residents who rent their former home.

If your client enters aged care after 1 January 2017, and they rent out their former home, any rental income they receive will now be included as income when the Department of Human Services assesses their rate of pension or income support payment.

The former home will also be included as an asset after two years, unless it is occupied by their partner.

The changes will primarily affect individuals in receipt of a social security pension payment, including the Age Pension. Other pension payments likely to be affected include:

- Disability Support Pension;
- Widow B Pension;
- Wife Pension (Age);
- Wife Pension (Disability Support Pension); and
- Special Benefit.

The changes will also apply to people in receipt of an income support payment if they enter aged care from 1 January 2017.

People who entered aged care before 1 January 2017 and are paying their accommodation payments periodically, will not be impacted by this change, unless they vacate aged care for more than 28 days after 1 January 2017.

Prior to 1 January 2017, if a person entered aged care, rental income from their former home was exempt from the income test for pension or income support payments if they were paying their accommodation payments periodically.

The former home was also exempt from the social security income and assets test indefinitely if it was being rented and the person entering care paid a periodic aged care fee.

This change removes these exemptions from the income and assets test for people who enter aged care on or after 1 January 2017.

The 1 January 2017 pension assets test changes will only affect those pensioners whose payment is assets tested.

Pensioners who are asset tested will not be affected by these changes until their former home is included as an asset after two years (January 2019), unless it is occupied by their partner.

Pensions may change from being asset tested to income tested as a result of the assessment of the rental income from their former home due to an increase in their overall income. This will occur where the income test pays a lower rate than the assets test.

Where a pensioner's payment has been reduced as a result of the 1 January 2017 changes to the pension asset test, their aged care fees may also be reduced.

This is because pension and income support payments are included as income in the aged care means test.

Further information about these changes is available at humanservices.gov.au/

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