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Financial Planning

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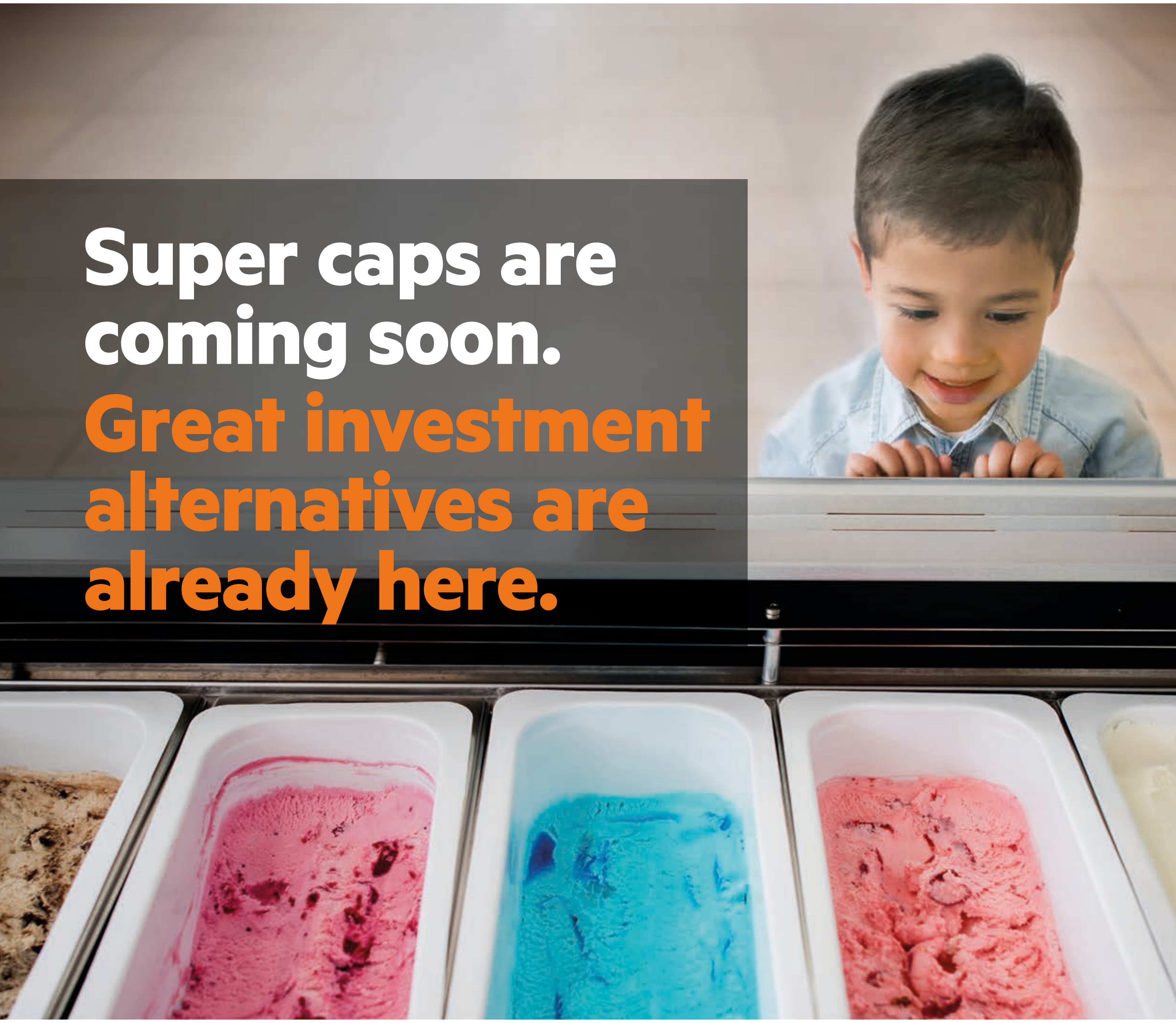
Facing up to Facebook

Adele Martin CFP® on
social media strategies

THIS ISSUE

ESTATE PLANNING / CLIENT CONVERSION / TTR INCOME STREAMS /
LIFE INSURANCE ADVICE / GIFTING ON THE PENSION

Australian Unity



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FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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May 2017

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The waiting game

As we eagerly await the new education body to set the new framework, things aren't slowing down at the FPA.

To be clear, no existing financial planner will need to complete a full degree, but you may be required to complete some bridging study, depending on what you have already completed.

The anticipation of the forthcoming education standards for existing financial planners has understandably caused some anxiety. Nobody likes uncertainty, and many of you are eager for confirmation on exactly what additional study you may be required to take in order to meet the new degree education standard passed into law by Government.

Unfortunately, we are in a waiting game. Now that the Financial Adviser Standards and Ethics Authority (FASEA) has been established, the body needs time to develop the framework, and realistically, we will not have an outcome until mid to late 2018.

Throughout this period, the FPA will play an active role in ensuring the transition arrangements for CFP® Professionals and Financial Planner AFP® members are practical and fair. We will also continue advocating that the CFP® designation is recognised by the new standards body.

What we know today is that existing financial planners will have until 1 January 2024 to meet the new requirements. We also know that the new body is required to take into account all study you have completed at a tertiary level, including diplomas, degrees and designations.

To be clear, no existing financial planner will need to complete a full degree, but you may be required to complete some bridging study, depending on what you have already completed. We will be working closely with universities and other education providers to ensure there are bridging course options that meet a wide range of needs.

FPA Roadshow

You may still have questions about the new education standards and we will be addressing as many of these as we can at the 2017 FPA National Roadshow, which recently kicked off.

If you haven't already registered, head to fpa.com.au/roadshow and book your place today. At the event, we will also be updating you more broadly on the other elements of the professional standards and education framework, plus some of the key initiatives currently underway by some of the regulators.

TPB re-registration

I want to take this opportunity to remind you about the 30 June deadline for re-registration with the Tax Practitioners Board (TPB). If you are providing tax (financial) advice services as part of your financial advice to clients for a fee or reward, you must be registered with the TPB as a tax (financial) adviser to avoid breaking the law.

If you are unsure as to what your obligations are, I strongly recommend you to visit the TPB website – tpb.gov.au – and make sure you understand them.

Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

McDonald appointed new chair of CRC

Graham McDonald has been appointed the new chair of the Conduct Review Commission (CRC). The CRC is an independent body that ensures practitioner members are held accountable to the FPA Code of Professional Practice and Code of Ethics. The CRC plays an important role in regulating the conduct of FPA members and upholding the highest ethical standards within the financial profession.


Graham McDonald

As the new chair of the CRC, McDonald brings to the role a deep understanding of the law and dispute resolution, having been a highly successful barrister and solicitor. His term as chair is for three years.

In accepting the position, McDonald said he has had a long interest in financial dispute resolution, having spent time on the Federal Administrative Appeals Tribunal, where he oversaw a number of cases relating to financial planning.

"Seeing firsthand the types of cases brought before the Federal Administrative Appeals Tribunal has only reinforced for me the need for higher professional standards in financial planning," McDonald said.

"I believe my goals and objectives as chair of the CRC are to help raise and set those standards and see that they are adhered to," he said. "It's one thing to have standards, it's another thing to have those standards scrupulously followed. I see the role of the CRC as being supportive of the profession, not judgemental of it."

During his long legal career, McDonald has experienced running administrative reviews on consumer-related matters across State and Federal Governments, and private entities operating in Aboriginal affairs, banking and superannuation.

McDonald was State Commissioner for Corporate Affairs, Presidential Member of the Federal Administrative Appeals Tribunal, the inaugural Banking Ombudsman, and Chairman of the Superannuation Complaints Tribunal.

Education authority announced

The Government has appointed Catherine Walter as chair of the new Financial Adviser Standards and Ethics Authority (FASEA), which will be responsible for setting the education and training requirements, as well as a Code of Ethics, for the financial planning profession. Walter will serve as chair for a four-year period.

According to the Minister for Revenue and Financial Services, Kelly O'Dwyer, the FASEA board will be responsible for:

- ensuring the financial viability of the authority, and setting strategic objectives for the authority;
- approving the education standards for financial planners, the exam and the model for a code of ethics; and
- appointing the chief executive officer and holding this individual to account.

Joining Walter on the FASEA Board are eight directors, who will serve terms of between two and three years. The Board members include: Matthew Rowe CFP®, Deborah Kent CFP®, Carolyn Bond, Dr Mark Brimble, Catriona Lowe, Dr Simon Longstaff, Steve Somogyi and Michael O'Neill.

FPA chief executive officer, Dante De Gori welcomed the appointment of the Board, saying financial planners now needed to be patient, while FASEA took the time to develop the new education framework for the profession.

"Realistically, we will not have an outcome until mid to late 2018," De Gori said. "In the meantime, the FPA will play an active role in ensuring the transition arrangements for existing financial planners are practical and fair. We will continue advocating that the CFP® designation is recognised by the new standards body," De Gori says.

The following is a rundown of what is currently known about the new education requirements for existing financial planners:

- Existing planners will have until 1 January 2024 to meet the new requirements; and
- FASEA is required to take into account all study a planner has completed at a tertiary level, including diplomas, degrees and designations. Therefore, no existing financial planner will need to complete a full degree, but they may be required to complete some bridging courses, depending on what they have already completed.

The other known requirements included in the education standards reform package include:

- From 1 January 2019, all financial planners will be required to undertake CPD;
- From 1 January 2020, all financial planners will be required to subscribe to a Code of Ethics; and
- From 1 January 2021, all financial planners will be required to pass an exam. The details of this exam will be set by the new education body.

Super income stream product consultation

The Minister for Revenue and Financial Services, Kelly O'Dwyer has released draft superannuation income stream regulations for consultation by the public and industry.

The new regulations are part of the Government's superannuation taxation reforms as outlined in the 2016 Federal Budget, and introduce a new set of design rules for lifetime superannuation income stream products that will enable retirees to better manage their finances and longevity risk in retirement.

The regulations are intended to cover a range of "innovative" income stream products, including deferred products, investment-linked pensions and annuities, and group self-annuitised products.

According to O'Dwyer, superannuation funds and life insurance companies will receive a tax exemption on income from assets supporting these new income stream products, provided they are currently payable or, in the case of deferred products, held for an individual who has reached retirement.

The explanatory memorandum of the regulations suggest that retirees who invest in these new breed of products could potentially have part of their capital commuted tax-free as a death benefit. It also proposes that individuals could access their superannuation early to purchase an interest in a deferred income stream under new amendments to be made to the *Superannuation Industry (Supervision) Regulations 1994.*

"These new rules will remove taxation barriers to the development of new products that will provide greater flexibility in the design of income stream products to give more choice to consumers, while ensuring income is provided throughout retirement," O'Dwyer said.

"The development of these new products is a precursor to the development of Comprehensive Income Stream Products for Retirement, or CIPRs," she said.

Minister Kelly O'Dwyer

The exposure draft regulations and explanatory statement are available at: www.treasury.gov.au/ConsultationsandReviews/Consultations

For more, read the opinions of FPA practitioner members on page 10.

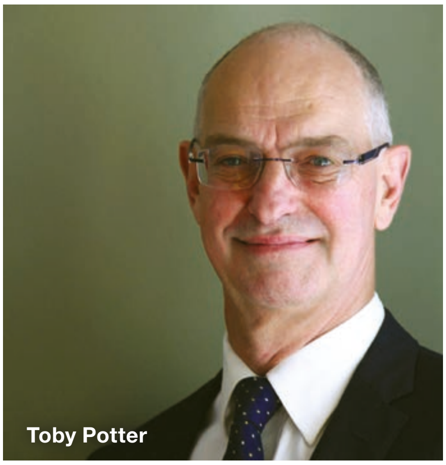
Managed account FUM up 27% to $39b

Funds under management in managed accounts now stand at $39.2 billion – a 27 per cent increase in the six months to 31 December, 2016.

Commenting on the findings of the 'Managed Accounts FUM Census', the chairman of the Institute of Managed Account Professionals (IMAP), Toby Potter said the new total demonstrates just how significant managed accounts have become.

"Managed accounts, in all their various forms, now amount to the equivalent of nearly 7 per cent of the $600 billion of funds under advice on platforms and wraps," Potter said.

Managed Discretionary Accounts (MDA) recorded growth of 64 per cent for the six month period to 31 December 2016, with a total of $16.72 billion in funds under management. This was followed by Separately Managed Accounts (SMA) at $12.36 billion – an increase of 40 per cent.



Toby Potter

However, other types of managed account services recorded a 15 per cent decline to $10.1 billion, a drop of $1.76 billion on the previous six months.

Potter said the increase in funds under management for managed accounts could be attributed to three primary sources: market movement in existing portfolios; additional participants compared to the June 2016 survey; and growth in the FUM for the providers who participated in both the June 2016 and December 2016 census.

A total of 35 companies participated in the December 2016 Managed Accounts FUM Census. However, Potter added there remained a number of significant providers that did not provide their managed account FUM data.

"Consequently, we know that the actual total will be greater than the number this survey has revealed," Potter said. "This simply reinforces the increasing significance of this sector in the provision of personal financial advice."

National Roadshow rolls into second month

This year's annual FPA National Roadshow is now in its second month, with good attendance numbers at the four April presentations.

Over the next two months, the roadshow will visit 29 locations, finishing on 29 June at the Gold Coast and Wollongong Chapters.

The roadshow features updates and the latest information from the FPA on:

- the FPA Professional Ongoing Fees Code;
- the Financial Adviser Standards and Ethics Authority (FASEA), and the new education and professional standards; and
- the Government's policy agenda and a legislative update.

Members can also gain insights from Platinum Asset Management on how to identify investment opportunities in global markets at a time of enormous change and disruption.

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

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

Tuesday 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.*

Regulator updates conduct and disclosure guidance

ASIC has updated it's *Regulatory Guide Licensing: Financial product advisers – conduct and disclosure* (RG 175), to reflect regulatory and legislative changes, including revisions to the FoFA reforms.

The updated RG 175 includes:

- Technical amendments to the FoFA reforms since the previous version of RG 175 was released;
- Clarification on the appropriate advice requirements, financial adviser record-keeping obligations, and requirements when making electronic disclosures to clients;
- The application of the tax agent services regime in the *Tax Agent Services Act 2009* to financial planners who provide tax (financial) advice services from 1 July 2014; and
- Two new examples to illustrate the process ASIC will apply in determining whether the best interests duty has been satisfied.

To download RG 175 go to: download.asic.gov.au/media/4191992/rg175-published-22-march-2017.pdf

FEW joins FPA in alliance

The FPA has entered into an alliance with Financial Executive Women (FEW) aimed at advancing the progression of women in financial planning.

The FPA has entered into an alliance with Financial Executive Women (FEW) aimed at advancing the progression of women in the financial planning profession.

In making the announcement, FPA chief executive officer, Dante De Gori said the alliance was part of the FPA's overall strategy to attract the next generation of planners to the profession, which included both men and women.

"Women currently make up 28 per cent of the FPA membership and only around 20 per cent in the profession, both of which we would like to see increase," De Gori said. "I believe the collaboration with FEW will help foster community, innovation and leadership amongst existing female financial planners, while also encouraging more women to choose financial planning as their profession," De Gori said.

FEW managing director and founder, Judith Beck said she was excited to be aligning with the FPA, saying FEW shared the Association's core values.

Now in its fifth year, FEW was developed to provide support and career advocacy to women within financial services. It has a career advocacy program that is designed to enable women to obtain advice, guidance and support from more experienced and senior women within the financial services industry, thereby helping them to achieve their full potential.

"It is incredibly important to encourage more women to join the financial planning profession," Beck said. "Financial planning offers many career paths, whether it's working for an institution, an unaligned practice or building your own independent business. It's a noble career that offers workplace flexibility, which many women find appealing."

It is a view supported by FPA chief operating officer, Pene Lovett. "A career in financial planning is intellectually stimulating and offers significant earning potential. It also has the added attraction of flexible working hours and the opportunity to positively impact lives.

"We know making a difference is something more people are looking for, and hope that through this initiative, we will see the number of female financial planners in Australia grow steadily in the years ahead," Lovett said.

Beck said it was important to promote the benefits of the profession amongst women and that through advocacy programs, like the one provided by FEW, women could be reassured that they will be supported throughout their careers.

As part of the new initiative between the FPA and FEW, Beck said FEW would be tailoring its 'Circle' programs specifically for the needs of female financial planners. Currently, FEW offers the 'Circle@10' future leaders program and 'Circle@2' for women of seniority, which enable women to meet and discuss issues in a confidential and supportive environment.

"The overall objective of the FEW Circles is to ensure participating women at all levels have an opportunity to discuss topics they are interested in with experienced industry leaders. Interaction is encouraged with no judgment," Beck says. "We are here to help and provide them with the experience, guidance and support they need in their career."

In addition, next year FEW will be expanding its annual leadership conference to Melbourne, Sydney, Brisbane, Perth and Adelaide, offering a tailored event within the conference format specifically for financial planners.

The FPA and FEW are also developing state-based events targeting women that will be rolled out later this year.

"By working closely with the FPA, I believe we can not only raise greater awareness of women in the profession but importantly, ensure these women are supported and have their voices heard," Beck said. "This alliance is all about supporting, empowering and furthering the careers of women in the financial planning profession."

> "This alliance is about supporting, empowering and furthering the careers of women...." – JUDITH BECK

Strategic imperatives for retirees

Q: From July 1, the Government is proposing to remove barriers to new innovative retirement income stream products by extending the tax exemption on earnings in the retirement phase for these products. What other strategic imperatives do you think still need to be solved for retiree clients?

Mark Schultz CFP®
Strategy Adviser, Elston
Licensee: EP Financial Services

When addressing the issue around retiree clients, this typically encompasses looking for solutions to deal with longevity, inflation and market risk. With that in mind, I think the Government should firstly focus on what can be done prior to retirement.

I believe it's important people get professional advice and have a clear plan for their retirement. To reduce the cost of getting up-front advice, I think a comprehensive financial plan from a CFP® professional should be tax deductible.

Secondly, both sides of Government need to provide certainty for retirees. On that basis, I agree with the SMSF Association's call to remove superannuation policy from the annual Budget cycle by limiting significant superannuation changes to be undertaken only as a result of a comprehensive periodic long-term review of superannuation. The Intergenerational Report (IGR) would be an appropriate vehicle for a regular periodic review.

I also think the Government needs to look at ways of helping SMSF trustees to invest directly in key infrastructure projects. To date, SMSFs tend not to be direct infrastructure owners, but often invest in these assets via the shares they hold on the Australian Securities Exchange. As part of this strategy, I personally like the concept of the income returns being tax-effective.

Finally, I believe it is crucial we develop a system (similar to the Government's co-contribution) specifically for small business owners but with a more generous income threshold. This will promote more regular and earlier contributions, and reduce the risk tied up with a business sale funding retirement.

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

The strategic imperatives that still need to be solved for retirees include:

Longevity risk – As average life expectancy increases, there becomes a higher chance of depleting your capital and retirement products need to consider this.

Lower returns – As people age they generally become more conservative with their investment outlook and as a consequence, have a higher portion of their monies spread amongst the defensive asset classes. In an era of record low RBA cash rates and poor market performance, an early retirement can significantly impact on how long your capital will last.

Capping the withdrawal rate – Withdrawing high amounts from your super can rapidly erode retirement savings, thereby increasing the burden on the Government over time.

Inflation eroding retirement nest eggs – Your annual income needs could more than double over the course of your retirement. Greater investor education is needed to raise awareness of this issue.

Health care costs – With an ageing population, the costs of providing for care in your later years are expected to increase at a faster pace than inflation. A potential option would be to allow health care costs to be funded from your superannuation.

Scott Brouwer CFP®
Financial Planner, Prosperum Wealth
Licensee: Banyan Securities

As the baby boomers transition from work to retirement in great numbers, the fear of outliving their money is a major concern amongst a number of them.

While many retiring Australians still qualify for the Age Pension (either full or partial), it's often the case that this 'welfare' payment is generally insufficient to cover the lifestyle desired by the aspirational retiree.

While correct asset allocation is crucial for long-term successful investment returns, the current low interest rate environment coupled with the memory of the GFC etched in the minds of the modern retiree, makes for some interesting decision-making where risk has to be low and income high. Enter the financial planner who professionally explains, educates and guides them to make the most appropriate asset allocation for their circumstances.

The fact that the drawdown on income streams from superannuation rises as one ages is a compulsory factor that should be reviewed to enable older Australians to preserve their capital for future expenses, such as aged care.

While there are always exceptions, it's quite common for an 80-year-old to spend less on lifestyle than a 70-year-old, due to them naturally slowing down.

However, the 80-year-old has to withdraw a minimum of 7 per cent from their superannuation income stream, while the 70-year-old must withdraw 5 per cent minimum. Hopefully, deferred annuities may address this issue.

The elephant in the room for a lot of retirees is the family home. It's the asset rich, cashflow poor pensioner who needs a fair and equitable method of accessing capital from their property, while maintaining all that makes living in their home and area great for them, while 'god forbid', reducing the inheritance of the next generation.

It would be politically brave (in fact, suicidal right now) but prudent to include the family home, at some level, in the assets test for Centrelink.

If the house were to count, then innovative products could be developed to preserve the capital and provide income to enhance the life of the pensioner and reduce the increasing welfare budget. Surely that's a win, win.

In conclusion, while products may evolve to enhance the tools in the toolbox, the most important imperative is for retirees to engage the services of a financial planner as soon as possible to ensure that strategic advice is received, implemented and maintained.

Growing the knowledge

The fourth edition of the *Financial Planning Research Journal* has been published, offering a range of academic insights for the profession.

Professor Mark Brimble

The Financial Planning Research Journal (FPRJ) was first published in 2015. It is the FPA's research journal and the only journal in Australia dedicated to producing peer-reviewed academic research specifically related to financial planning.

It seeks to provide a conduit for financial planning research to be disseminated to relevant stakeholders with a view to informing debate, policy and practice in financial services.

Since its inception, the journal has published 19 papers covering a wide range of topics from demand for new entrants into financial planning; through to in-depth theoretical analysis of one of the most enduring puzzles of modern finance – time diversification.

Other papers have examined applied policy solutions (for example, how to include home equity in the retirement income mix), while others examine emerging issues such as estate planning for digital assets.

The inaugural edition included papers on the challenges faced by financial planners while advising ageing clients with diminishing financial capacity; safe withdrawal levels for retirees in the decumulation phase; financial decision-making and Indigenous culture within the Australian context; effective use of credit cards in household budgets; and the final paper looked at reallocation of assets among superannuation fund investors.

The second edition included articles on trust in the advice relationship; accountants' advice education; averting retirement poverty through product innovation; and measuring risk in the equity markets.

The third edition tackled issues such as investment diversification; risk profiling; licensee structures; financial literacy; and demand for financial planning graduates.

The fourth edition, published last month, covers: a novel study of common psychological errors common to both golf and financial behaviour; a paper on factors that predict success in the Australian version of the CFP® Certification Program; a study on sequencing risk for baby boomers who have superannuation in industry superannuation funds; and concludes with two papers in a special section for the 2016 annual STEP (Society of Trustees and Estate Practitioners) international conference.

The estate planning papers focus on the current status of succession planning in Australian farming; and the complications emerging regarding estate planning and administration of digital assets.

For stakeholders of financial planning, there continues to be many complex issues to explore and to contribute towards. The first four issues of the FPRJ, and forthcoming editions – including a proposed special edition on diversity in financial planning – will continue to build a base of academic research on Australian financial planning to contribute to the development of the profession.

To this end, FPRJ offers a range of insights into issues currently being debated in the corridors of Canberra, as well as practitioner offices around the country, with citations from other researchers continuing to grow.

Ultimately, the impact of the journal will be determined by use and application in further research, policy, education and evidence-based debate in the profession.

The FPRJ is a young journal, and has a committed editorial board and team, backed by the FPA Board, committed to continuing to publish high quality peer-reviewed academic papers, with a focus on expanding the journal's reputation and reach.

Importantly, the journal is also focused on reaching its readers – financial planning stakeholders – who can most benefit from it and who can most benefit from further research and impact. This engagement is evident in the inclusions of practitioner perspectives in some of the FPRJ papers, as well as the social media response to the published editions thus far.

With the pace of change and innovation in financial planning, FPRJ has a role to play in growing the body of knowledge focused on Australia's financial planning profession.

Professor Mark Brimble is the Editor of the FPRJ and Di Johnson is the FPRJ's Editorial Assistant. The FPRJ can be accessed at www.griffith.edu.au

Flexibility is key to study

Now in her second year studying the CFP® Certification Program, Karina Capri AFP® shares her insights on the program, including her study tips and some ideas for improvement.

Name:
Karina Capri AFP®

Educational Qualifications:
BFin, BEc, DipFP
Position: Wealth Advisor – Strategy
Practice: Dixon Advisory and Superannuation Services
Licensee: Dixon Advisory and Superannuation Services
Date you began the CFP Certification Program:
Semester 1, 2016
Years as a financial planner:
Three years

Why did you decide to undertake the CFP® Certification Program?

This program allows me to show my commitment to my profession and the high ethical standards adopted by CFP practitioners. The CFP designation is well regarded by consumers and a great way to show them that I am serious about being a professional financial adviser. I also like the idea of becoming part of a broader network of like-minded professionals.

What are your aims, objectives and expectations in undertaking the CFP® Certification Program?

A primary focus for me in undertaking the CFP Certification Program is to enhance my understanding of financial planning concepts and strategies at an intricate level.

I view obtaining the CFP designation as part of my ongoing process of continuing education and professional development – rather than an end goal. I am developing skills which will enable me to assist clients, no matter what their situation.

"As every client's situation is unique, and goals and objectives differ from client to client, the program is a great way to deepen my knowledge across situations that may be less common."

How are you approaching your CFP® Certification studies?

When it comes to allocating time for study while balancing full-time work, I tend to treat one case study/assignment question as one extra client meeting per week and treat it no differently than I would a real client.

When looking through the case studies, I often prepare several questions I would ask if I was faced with that very scenario and then make assumptions to fill in the gaps surrounding the clients' goals and objectives before developing the strategies.

Are you using any of the tools available for students to assist them in their studies? If so, what tools?

In my view, the best resource available is the student chat room on the online CFP portal. The way these chat rooms are structured by separating out specific assignment questions and exam related queries, enable students to quickly find topics that are relevant and which may be common across the group. The moderators provide responses to every question in a timely manner.

What do you like about the CFP® Certification Program and what can be improved?

I enjoy the comprehensiveness and complexity of the client scenarios that are used in the case studies throughout the program.

As every client's situation is unique, and goals and objectives differ from client to client, the CFP Certification Program is a great way to deepen my knowledge across situations that may be less common.

This provides me with a better understanding of when and why particular strategies may be suitable, rather than just knowing about them in a theoretical environment.

Overall, I think the program is really well designed.

However, a potential improvement might be short pre-recorded webinar type lectures, which focus on one specific topic within the course content. This may allow students to benefit from the webinar style of learning, but provides them with the flexibility to adapt this style of format to their own unique study schedule.

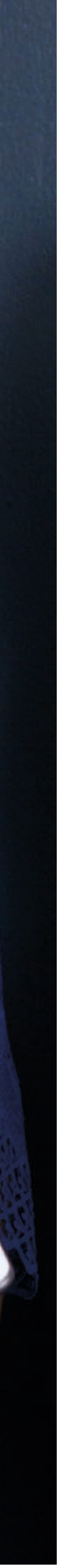
What advice do you have for any planner considering undertaking the CFP® Certification Program?

It's well worth the investment for a profession where legislation and strategies are changing rapidly. Understanding concepts at a core level and being able to apply them to benefit individual savers will prove invaluable for the future.

However, be sure to think through the time commitment and do it at a point in your career where you can get the most out of it.

> "Understanding concepts at a core level and being able to apply them to benefit individual savers will prove invaluable for the future."

I'm using social media as a way of building trust and providing value to my community.



Lighting up social engagement

Adele Martin CFP® is proof that when implementing an effective social media strategy, you don't need to be an expert. She is on a constant learning curve, discovering what works best for her and her business. Adele shares some of her tips with Jayson Forrest.

Adele Martin's business is not your usual financial planning practice. Firstly, she shares her Newcastle office space with six other financial planners – all running their own practices independently of each other. However, they do share the office rent and admin team.

And secondly, this CFP® practitioner has developed a business that, by her own admission, is a "little different", by specifically targeting the 20-40 year age bracket – the wealth accumulators.

Adele is right when she says her practice is a "little different". Her decision to target the Gen X and Ys spans back to her early days when she was a partner in a practice catering for retirees.

"I was working with clients who were retired or about to retire, and what struck me at the time was when I was discussing their financial planning needs, I would constantly hear them say, 'I wish I saw you years ago'.

"I felt powerless because when I saw people for the first time at retirement, I couldn't change their financial outcome. That's when I had a lightbulb moment. If I wanted to make an impact and change people's future for the better, I had to start working with them much earlier."

Name:
Adele Martin CFP®

Educational qualifications: BCom, AdvDFP
Position: Managing Director and Senior Wealth Adviser
Practice: Firefly Wealth
Licensee: RI Advice Group
CFP designation: August 2010
Years as a financial planner: 12 years

That epiphany led to Adele setting up Firefly Wealth in August 2013, but it didn't come without a substantial learning curve in understanding how to involve Gen X and Y in the financial planning process.

"When I was working with retirees, I would be concentrating on allaying their fears. But when I began working with my younger clients, I quickly learned that this required behavioural change," Adele says.

"This means you have to motivate them, you need to show them what their financial future looks like and what they need to do to achieve that. Then you need to change their behaviours in moving towards this. So, it was a very different approach from that of retirees and probably one that I didn't fully appreciate until I was actually in the trenches working with my younger clients."

Social media presence

A major element of working with a generation of socially savvy clients has seen Adele adopt and implement a social media strategy for her business, and while she's no guru, it's a strategy that is paying off for the 35-year-old. And the most effective way Adele has used social media is through building a following through Facebook.

"I have developed a private Facebook group called the Savings Squad. We have nearly 700 members and we're on track to have 1,000 members by July."

The group was originally developed by Adele to attract new clients, but then existing clients asked to join the group, "so now, it has become a way for me to connect with my clients in between their appointments as well, which has been an added bonus of this group".

The Savings Squad group on Facebook is all about building value around financial planning. This includes

Continues on page 18

providing weekly savings tips and money challenges for the members. Adele also uses live streaming, which includes Q&As, as a means of providing genuine value to the group.

'Value' is a word Adele uses often. She firmly believes it's the 'value' of content and professional capability that clients are looking for in their relationship with a practitioner.

"Collectively, as financial planners, we don't have a great reputation with consumers. So, I'm using social media as a way of building trust and providing value to my community. I believe if you provide value enough times, it comes back tenfold."

In addition to the Savings Squad group, Adele is also channelling everything she does online through her personal Facebook page – Adele Martin Money Mentor. And as part of her ever expanding social presence online, which also includes LinkedIn, Adele is also preparing to launch her new website – AdeleMartin.com

"The reason why I'm so active on social media is because it allows me to pivot more."

Pivot more?

"That's right," she says. "It allows me to be more flexible with who I am and what my professional offering is. Facebook allows you to be you. You're not tied to an organisation's website. I recommend other planners build their own profile and brand on social media, because at some point, they are likely to pivot or change in terms of what they are doing or who they are working for."

For Adele's top five social media strategy tips, refer to the article below.

Public relations

By her own actions, this Novocastrian is proving you don't need to be a social media guru to succeed online. Indeed,

5 tips for social engagement

TIP 1: Video

Adele's first tip is – video, video, video. Online users love watching short videos and they have a much higher engagement with them than static text pages.

"Facebook is on record saying it wants to take over YouTube for the delivery of video content online, so video is only going to become more important in any social media strategy," she says.

Adele adds that online videos should also include captions, as they help to reinforce what is being said in the video.

"There's a great website called Rev (*www.rev.com/caption*) where it will do your video captions for $1 a minute. When I introduced captioning on my videos, my audience reach increased massively."

TIP 2: Ownership

Adele warns that business owners should not delegate responsibility for social media to the admin team or office juniors, and then expect that posting a graphic or image will be enough to generate interest in a post.

"It's a common mistake I see planners make all the time. When it comes to Facebook, you have to be yourself and you have to be authentic. So, just having a meme[1] on the page, or some pretty image, is not you being authentic.

"I'm 'friends' with most of my clients on Facebook, so they understand my world and what I'm doing. And importantly, it also helps me to understand my clients better," she says. "I know what is happening in their lives. I know when they just had a baby or have been made redundant. This allows me to respond straight away and better help them."

"I know Facebook provides a level of intimacy that might freak a lot of planners out, but my clients actively message me on Facebook, and they tag and post me on Facebook. They feel connected with me as their trusted planner. Not only do they help spread my professional profile, they are my referral network. Now, that's powerful."

TIP 3: Believe in it

For any practitioner without a presence on Facebook, Adele advises them to get on board – and do it quickly!

"I hate it when I hear planners say, 'My clients aren't on Facebook'. When I hear them say that I think, well, my mum is 71 and she's on Facebook. There's 15 million Facebook users in Australia. So, when I hear a planner say their clients aren't on Facebook, they actually are. The people you are targeting are on Facebook."

And Facebook users typically spend about 13 hours a week on there, which Adele believes is a wonderful opportunity for planners to connect with consumers in a non-threatening and easily digestible format.

TIP 4: Understand your audience

For planners using Facebook, they need to really understand and know their avatars[2] and the person they are talking to.

"Once you understand the type of person you are talking to, you'll be able to use that to refine and target your audience better," she says.

As an example, Adele's audience has many of the same characteristics as personal trainer, author and TV

Adele is also turning online to build her professional profile outside of Facebook and to a wider audience, so much so, that respected news organisations are turning to her for expert comment.

So, how is she doing it?

Firstly, she has signed up to Source Bottle (*www.sourcebottle.com*) – a free online service that connects journalists with experts in their respective fields.

"Source Bottle is an online service that journalists go to when they need to speak to an expert in a particular field or profession. You register your expertise and when a journo is after a comment, they will contact you."

But offering your expertise to the media does come with commitment. "When dealing with journalists, planners need to be ready and be able to respond quickly to their requests for comment. There's no point registering to a service like this, if you're unable to commit," Adele says.

"Journalists are very time poor. They typically have tight deadlines, so you need to be prepared to get back to them quickly," she says. "And even if I can't help them with a comment or the information they're after, I'll find another planner who can help them. I go out of my way to be helpful, because it makes me memorable to the journalist and I know they will be back wanting a comment from me for their next story."

And it's working. Adele has already featured in the *Financial Review* and the *Sydney Morning Herald*, along with some regional newspapers.

"When it comes to financial planning, we're the subject matter experts. Why not make better use of social media and information sharing websites to promote your expertise to a much wider audience of potential clients? It's easy and cost-effective, and it's a great way to build your business. It's also an excellent way to change negative perceptions consumers have of us and financial planning."

And for this young go-getter, implementing a social media strategy for her practice, and making use of online resources, is paying off. Her practice and professional profile continues to grow rapidly.

"I'm no social media guru, but you don't need to be. I'm on a constant learning curve, discovering what works best for me and my business. And that's the approach I would recommend any planner take. Talk to other professionals, talk to your kids and friends – find out what they're using and experiment with it," Adele says.

"It really is easier than you might think."

personality, Michelle Bridges' audience – predominantly women who are in their 30's.

"So, knowing that, I actually target Michelle Bridges' audience on Facebook," Adele says. "Or if I know that a lot of clients approach me after they turn 30, then I provide content of value on Facebook that just targets people who are about to turn 30. So, if you understand your avatars, you can effectively target them on Facebook."

In fact, the level of user detail on Facebook that is available to planners is extraordinary, and is widely considered to be better than Australian census information.

"You can target somebody who has just got engaged, you can target somebody who has just turned 30, you can target somebody in a particular income bracket – it's really remarkable the level of detail that's available to practitioners," Adele says.

Importantly, Adele says 'targeting' is not about showing an ad or an offer to the Facebook user. Instead, she says it's about showing the user something of genuine value, such as a video, and then building upon that trust.

Interestingly, Adele is currently doing a series of videos that not only provides value but is generating trust within her audience groups.

She explains: "You start with a big audience, like Michelle Bridges' audience. I target her audience with a video that I think will resonate with them. I know that the people who watch the video are interested. I can then retarget the people who have watched that first video and then continue that retargeting for as long as my target campaign goes for.

"Effectively, what I'm doing is building a funnel. So, I might have an audience of one million people for my first video, with only 10,000 people watching it. Then maybe 8,000 people who watch the second video. With these two videos, I'm providing value to my audience. It's only at the end of my target campaign, not during it, do I make an offer regarding my services or invite them to join the Savings Squad."

TIP 5: Get active

Adele's final tip is for planners to "get active" in other online groups.

"Not to sell or promote your services, but by adding value through supporting these online communities with your expertise and capability.

"These could be groups where your key clients or potential clients hang-out. By opting in and providing valid support to these groups, eventually users of these groups will click on your profile to check you out. It's an easy, interactive and cost-effective way to attract new clients."

1. A meme is used to describe a thought, idea, joke or concept that's widely shared online. It is typically an image with text above and below it, but can also come in video and link form.

2. An avatar is an image or username that represents a person online, most often within forums and social networks.

Estate planning services: A new approach

In the second of his series of estate planning articles, Gil Gordon CFP® examines the expectations of clients when tragedy and crisis strikes from an estate planning perspective.

My first article in this series of estate planning articles (March issue *Financial Planning* magazine), introduced a body of statistics that make a strong argument for the value and relevance of estate planning as a service offering for modern Australia and every financial planning firm.

This article will focus on the reality of how a client feels and what a client experiences when tragedy strikes. The financial planner can be proactive and build an ongoing client value proposition based around preparing and maintaining, what I call, 'The Information That Matters' and a 'Crisis Management Plan'.

Perhaps the most compelling statistic is that the net worth of the average Australian couple over 55 exceeds $1 million, held mainly in the value of their family home. Pragmatically, this asset remains largely un-advised by accountants, lawyers and financial planners, however, clients are normally acutely aware of the scale of their children's likely inheritance.

An ongoing value proposition

One of the great strengths of the financial planning profession is the ongoing revenue streams associated with our businesses. Despite being under attack, these revenues exist because of an ongoing and highly valued relationship between adviser and client.

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

1. The legal instruments – wills, PoAs, superannuation nominations etc;

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

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

Elements 2 and 3 present an opportunity for the planning profession. The vast majority of practitioners in Australia err in seeing estate planning as merely the preparation of the necessary legal instruments, which are generally perceived by clients (and financial planners) as a once off expense and not an ongoing requirement.

The information that matters

Like so many Australians before him, John (refer to case study p21) discovered that finding the necessary information was a genuine burden. There are 10 basic categories that are required when crisis strikes. See Chart 1.

In our practice, we prepare a client report titled 'The Information That Matters' (ITM), which is reviewed annually with clients. The information relating to products is relatively simple; capturing it and storing it creates the value for clients. The following examples (Chart 2) are extracts from the ITM report.

Chart 1

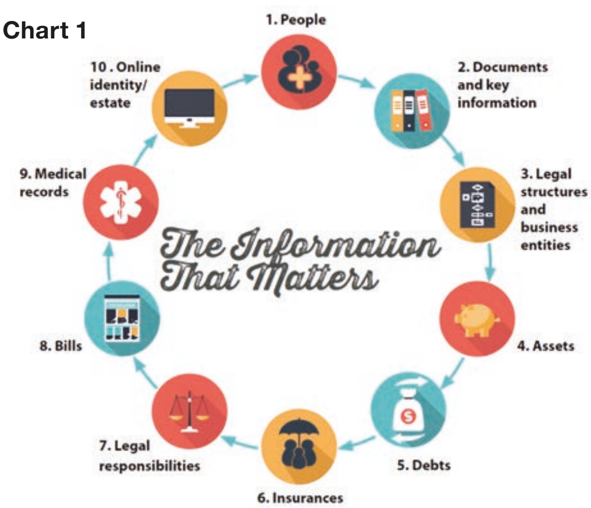


Chart 2 - Assets

Bank Accounts

Bank with whom account is held	Account owner	Account name	BSB and account number	Adviser to call	Purpose of account/ other details
Test Bank	John	Mr J Sample	12345 789101112	Gil Gordon Gordon Financial	
Test Bank	Jenny	Mrs J Sample	654321 121110987	Gil Gordon Gordon Financial	

Superannuation Funds

Fund name and policy number	Account owner	Nominee/s and % allocation	Approximate value	Type of death nomination in place	Adviser to call when help is required
Test Super	John	Jenny Sample 100%	$650,000	Binding	Chris Neal RI Advice
Test Super	Jenny	John Sample 100%	$18,000	Binding	Chris Neal RI Advice

Debts

Credit Cards

Owner	Card type	Card number	Bank/issuer	Adviser to call when help is required	Card details (e.g. current balance, card limit, other details)
John	Amex	1234 5678 9012 3456	Test Bank	Gil Gordon Gordon Financial	Max $50,000
Jenny	Visa	987 123 675	Visa - NAB	Gil Gordon Gordon Financial	$5,000 limit

Mortgages

Owner	Bank, BSB and account number	Balance owing	Property offered as security	Adviser to call when help is required	Other details (e.g. owner details, other parties offering guarantees)
Jointly with spouse	123456 123456789	$200,000	Home	Chris Neal RI Advice	Main residence
Jointly with spouse	654321 987654321	$250,000	Investment property	Chris Neal RI Advice	Investment property

Case study: *When the legal authority simply isn't enough*

Eric and Janine live in Hervey Bay (not their real names or location) and ran a small sole trader kitchen business with two employees. In addition, they have two investment properties, including one in an SMSF administered by Eric through a country accountant.

Eric and Janine have two children, both living at distance, and Janine has never really been involved in the management of their business affairs, relying on Eric and their accountant.

Eric died suddenly in a vehicle accident whilst at work and even though she was executor of Eric's will, Janine turned to her sister, Susie, and husband, John, for help.

John, a busy and successful accountant in Brisbane, took a week off work to visit Janine and he discovered the reality of the job in front of him.

Tax returns and SMSF returns were yet to be lodged. Eric was ill-disciplined with his management of business versus personal expenses, with mortgage payments, rental income, business and personal expenses all met through the same personal bank accounts.

Eric's understanding of his own affairs was not well documented.

Even though John knew what to do, he quickly realised just how big a task he had signed up for, estimating that the job would take at least six months (largely outside of work hours) just to make sense of Eric and Janine's affairs, deal with life insurance and superannuation, and get their tax returns lodged.

"Thank God we have you, John," said Susie. "Janine and I wouldn't have the first idea about what to do. What would happen to me if I lost you?"

Continues on page 22

John realised then that even though his own legal documents were in order, Susie and his children were just as vulnerable as Janine. "You're right, Susie," said John. "Having a will is not the same as knowing what you need to know and that is not the same as knowing what you need to do."

A new definition of estate planning

Life is immeasurably more complex for the average Australian now than a generation or two ago. Not only are we wealthier but we typically have shares, properties and managed funds, four different types of life insurance, two to three family vehicles and four to eight different general insurance policies. We have blended families, six bank accounts with three different institutions and have 10 different online identities.

Viewed this way, we need to upgrade the traditional definition of estate planning from:

'The right money, to the right people at the right time', to 'The right money, the right information and the right guidance, to the right people at the right time.'

Taking action: A useful listing of the most commonly required information is available for downloading. It's titled the EPFL One Page Executor's Guide. For a copy, contact us via www.estateplanningforlife.com.au and we will email you one.

The case study of Eric and Janine illustrates how a competent and trained professional can still be blindsided by the reality of an estate planning event/ family crisis. John knew what he must do and, via Susie, legal authority wasn't a problem, but he was hamstrung by missing information.

In reality, the 'Information That Matters' is constantly evolving for the majority of our clients as they change vehicle, homes, insurance policies, investments and so forth. It is this change which creates the ongoing value proposition that we are seeking in a world where ASIC is now very interested in what financial planners are delivering for their ongoing fees.

In addition, the value of this register is greater for clients as they age and the traditional advice opportunities diminish.

Our practice also prepares a document called the 'Crisis Management Plan', which is used to guide the families of our clients through the questions they need to ask. I will discuss this document along with the 'pricing' and 'deliverables' in an ongoing estate planning offering in a future article.

Engagement ideas: Protecting the kids

Over the years, I have had many conversations with my clients about their wills and what they want for their children and grandchildren. Our file notes are full of quotes like:

- They spent too much and have nothing to show for it;
- He has too much influence over our daughter, he couldn't leave her money alone;
- Why do they need to keep spending money on toys for him, and they're still renting. Don't they think about their future?
- It's not a good marriage, they're always fighting. I want to help them but that woman will have the money spent before it's in their bank account.
- Business isn't good. They work hard but they're always fighting about money.
- Our son drinks and smokes drugs. He can't hold down a job for too long. We want to make sure our grandson is provided for.
- My daughter is easily led and I worry that some guy will take advantage of her to get to her money.

Sounds familiar, doesn't it?

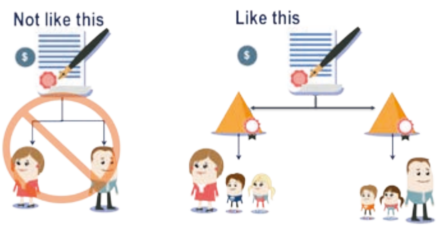
The basics of discretionary testamentary trusts are relatively well understood by planners, so I won't make this a lesson in the roles and operation of trusts.

I believe strongly in the value of testamentary trusts, with bloodline capital restrictions for inheritances of more than a few hundred thousand dollars. These trusts aren't perfect and whilst there are occasional precedents where the Family Court has considered the trust capital to be assets of the marriage, those same courts have shown themselves to be very respectful of the intent of the will maker in attempting to preserve the assets for the benefit of their descendants from legal and behavioural risks.

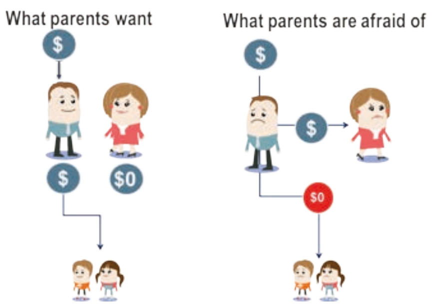
As I say to clients all the time: "We are trying to establish legal hurdles to make it difficult for external parties to attack your family's inheritance… these structures aren't perfect, they're good but not perfect. Just ask Gina Rinehart if you want to know more!"

"The story of Eric and Janine illustrates how a competent and trained professional can still be blindsided by the reality of an estate planning event."

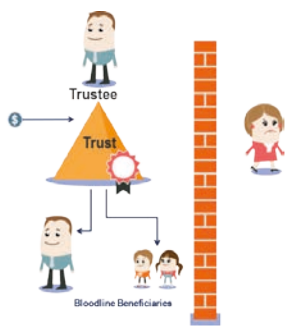
Two problems and a solution: Divorce



When discussing divorce, I like to use the following images:



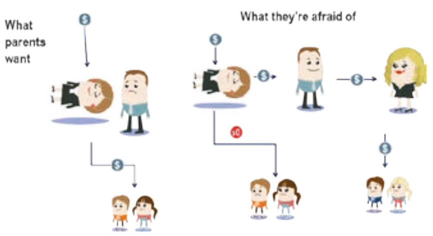
A possible solution



This diagram explains the concept of a protective trust quite simply. A skilled planner I know describes it as: "The wall is not perfect, there is a gap at the top, but it's a better barrier than nothing at all."

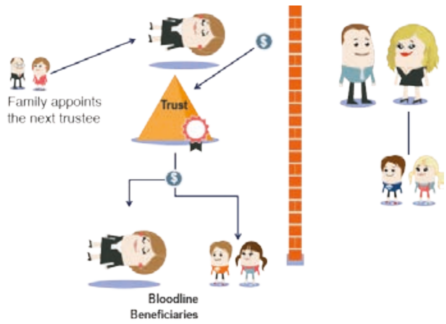
Two problems and a solution: Protecting the grandchildren

Another common fear is the death of a child and the grandchildren being disinherited. I use the following images to outline the problem and a possible solution.



A possible solution

If your client's children have a will, it's normally a typical 'mum and dad' will, which means the son-in-law or daughter-in-law will inherit any assets of the deceased beneficiary. You may recall from my last article (March issue *Financial Planning* magazine) that if that person re-partners, then the chance of that relationship breaking down is more than 66 per cent.



Using a trust can create an elegant and robust solution. In this example, the siblings of the deceased child could be asked to accept the role of appointor to 'watch over' their niece and nephew's inheritance. They remain free to appoint any appropriate person as trustee (including the widower).

If they are not happy with the decisions of the trustee, then they can appoint someone else or step in themselves.

I often tell clients that whilst they cannot rule from the grave, they can decide who will.

Taking action: Contact us via www.estateplanningforlife.com.au and we will email you a copy of these slide images.

It is critically important for financial planners and accountants to explain to their clients that any discussion around these ideas is simply that, a discussion.

The law requires, as does your PI insurance, that a solicitor provide legal advice as to the appropriateness of testamentary trusts for clients. This creates an opportunity for the planner to engage with solicitors and then act as facilitator or lead adviser in this process.

However, a word of warning.

My experience has been that specialist estate planning lawyers are very comfortable and skilled with these structures, whereas lawyers with limited experience can have a lesser understanding of their merits.

Summary

I would encourage the reader to download some of the resources from our web page and simply include the conversation in your next review meeting with clients. Ask this simple question:

'Is there anything about your daughter's situation and her inheritance that worries or concerns you?'

I assure you that your clients will be engaged and respond very positively to you raising the question.

In future estate planning articles, I will examine:

- Building and pricing a scalable estate planning offering within your practice.
- Engagement techniques and estate planning engagement tools.
- Using estate planning to connect to the next generation.
- Elements of a Crisis Management Plan.
- More common concerns and possible solutions.

Gil Gordon CFP® is proprietor and senior adviser at RI Lower Hunter. Gil is the architect of Estate Planning For Life, a scalable web based system that facilitates the delivery of estate planning solutions in accounting and financial planning practices.

Gil can be contacted on (02) 4013 6070 or at gil.gordon@estateplanningforlife.com.au

Gil has been invited by the FPA to conduct a webinar on 'Building and pricing a scalable and profitable estate planning offering within your practice', which is expected to run around July this year.

7 steps to client conversion

Are you turning your prospects, leads and enquiries into clients? Dr Vesna Grubacevic provides seven ways to help you master the art of self-promotion.

Would you like to have more clients and greater consistency in your business? Are you afraid of getting a "no" and being rejected when you ask a potential client for their business?

The difference between business success and business failure lies in your ability to master self-promotion. Here are seven ways to turn your prospects, leads and enquiries into clients.

Abundance versus scarcity

Creating abundance begins with your thinking. You may have amazing business building strategies, yet if your mindset is one of lack (including lack of self belief), it will prevent you from applying the skills you know, leaving your business in the same financial situation or worse.

Having your beliefs, values and mindset aligned with abundance will enable you to more easily attract clients.

Watch your assumptions

What are you thinking and saying to yourself as you meet with prospects? Are you thinking that they are not interested in your services or are you questioning the value you offer?

If you assume that people are not interested, this can sabotage your business success. If you assume that you can really help your prospects and if you are speaking with your ideal prospects, you could be helping up to 80 per cent of them achieve their goals and dreams.

Where is your focus?

How much of your focus, time and energy are you spending on the people who say 'maybe' or 'no' to you? Too many people in business spend too much of their time on the 'maybes' and the 'no's'.

Because their focus is caught up with getting these prospects to buy, they have very little focus left for following up the prospects that are really interested, so they miss out on helping the people who are ready to be helped.

Remember, spend most of your time with the prospects who are ready to be helped now, and have a system for following up the rest as appropriate.

Build the relationship

Most people need more than one experience of you before they do business with you. So, rather than selling your service at the initial meeting, instead sell your relationship with them.

Build instant rapport, tailor your language to their preferred style, ask powerful questions, and really listen to how you can best help them to achieve their wants and needs.

Serve the need

Selling isn't about telling – it is about asking the right questions, in the right way and at the right time… so that you can best understand the prospect's needs and how you can best serve these.

Reading your prospects more effectively, assisting them in their buying decisions and really understanding them will also help you to serve them better.

Also remember that if there is no need, thank the prospect and find another one. After all, there are plenty of prospects out there, you simply need to attract more of them.

Follow through

It is only by following through and completing things that we achieve results. Some people in business start strategies for generating leads, while others start to follow up and only see them through to partial completion. Highly successful business people actually focus on a select number of strategies and follow each one through to completion and, therefore, achieve amazing results.

Put off procrastination and start following through with your leads, prospects and enquiries, and watch your business grow.

Put off procrastination and start following through with your leads, prospects and enquiries, and watch your business grow.

Seal the deal

Fear of rejection or fear of getting a 'no' is the major reason preventing people from asking for the prospects' business and closing the deal. Research shows that 90 per cent of business people have a fear of rejection, which stops them short of closing the deal.

Knowing exactly when to ask the prospect to engage your services is also very important. Because if you ask too early, you can come across as being too pushy and if you ask too late, you can miss out on serving your prospect altogether.

Importantly, using the above strategies will help you to turn more of your prospects, leads and enquiries into clients, and grow your business with integrity.

Dr. Vesna Grubacevic is an author, speaker, media commentator, and the founder and Performance Transformation Expert® with Qt.

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

TTR pensions: From hero to zero?

JOSH RUNDMANN
IOOF

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- Changes to TTR income streams
- Concessional contributions cap
- Tax concessions
- Death benefits

The transition to retirement (TTR) pension has often been viewed as a significant planning opportunity for people reaching the end of their working career and finding they may need one final ability to 'top up' their super before pulling the pin and entering the world of retirement fully.

However, from 1 July 2017, as part of the most substantive changes to super pensions since 2007, TTR income streams have been 're-vamped' with the intention of better aligning this income stream to its original purpose.

This article will revisit the various common uses of TTR income streams, whether those uses are now viable and what benefits these income streams can provide post 1 July 2017.

What are the changes?

The two key changes impacting those who may be looking to use a transition to retirement income stream are:

- Earnings on investments backing a TTR income stream will no longer be exempt from tax. As a result, earnings on these investments will be subject to tax at the standard accumulation rate of 15 per cent; and

- The concessional contributions cap is reducing from $30,000 or $35,000 for those 49 or over on 30 June 2016, to $25,000 for 2017/18, regardless of age.

The removal of the tax exemption of earnings on TTR income stream assets was introduced to remove the ability for people to transfer their super benefits into a tax-free earnings environment whilst they are still working.

As the superannuation system is defined by the ability to access tax concessions to help fund your retirement (or as the Government's proposed objective for superannuation states, to supplement or substitute the Age Pension), the Government feels it is better targeted to have pre-retirement income streams for everyday Australians taxed at the same concessional rate as accumulation interests.

Whilst not directly related, the reduction of the concessional contributions cap impacts one of the more common uses of TTR income streams.

Since the introduction of the new contribution cap system in 2007, the concessional contributions cap is roughly one-quarter of its original value.

In fact, the cap has been reduced to a point where the recent superannuation reforms have modified the maximum earnings base (that is, the maximum salary at which an employer is required to pay the superannuation guarantee), such that this base is now the less of the indexed base, or the concessional cap divided by the super guarantee (SG) rate.

The effect of this simply stops employers from paying more SG than the concessional contributions cap, however, it also indicates that the ability for people to save beyond their mandated employer contributions through tax-effective super contributions may be limited going forward.

How are TTRs generally used and how will this change?

Considering the average super account owner, there are three main reasons transition to retirement income streams have been used in the past.

1. Transitioning to retirement

Arguably the original intention of the TTR pension was to enable people who were over preservation age to reduce their working hours and allow them to experience some of the joys of retirement, whilst still being able to receive the same level of income and extend their work-force participation.

In other cases, some people have used TTR pensions to enhance their personal cash flow whilst still working full-time to help consolidate debts or meet other expenses – helping 'clear the way' for full retirement.

Changing the taxation on TTR pension earnings does not fundamentally derail the use of this income stream for these purposes.

The ancillary benefit of having tax-free earnings (which could result in a substantial tax saving) is not the main reason for the pension to exist. Going forward, TTR pensions will still provide the ability to access a tax-effective income stream for those looking to reduce their working hours or finish paying off the mortgage before retirement.

2. Salary sacrifice and cash flow management

A common financial planning strategy using transition to retirement pensions involves both a combination of increasing pre-tax contributions to super and supplementary TTR pension income to maintain a similar level of personal cash flow, whilst minimising tax and saving more in retirement.

Typically, this strategy involves salary sacrificing employment income to super, and using a TTR income stream to top up a personal cash flow, so the amount of after-tax dollars is the same, but since transition to retirement income is concessionally taxed, it is possible to create a tax arbitrage – the benefit of which is captured in super.

Once again, the benefit of the strategy is not driven by the tax savings on TTR assets, however, another change to super reduces the effectiveness of the classic TTR strategy.

That change is the reduction in the concessional contributions cap.

From 1 July 2017, the concessional contributions cap for everyone will be $25,000 – down from $35,000 for those 50 or older, or $30,000 for those under 50. For context, this is one-quarter of the transitional contributions cap brought in on 1 July 2007, 10 years ago.

Relevant to this discussion, however, is the ability to salary sacrifice. Given a 9.5 per cent super guarantee rate counting towards the concessional contributions cap, the ability for many people to make significant additional contributions beyond their super guarantee monies will be lower.

Like many super strategies, salary sacrifice contributions are more effective for higher income earners (at least up to $300,000 this financial year and $250,000 next year).

Given earnings are no longer tax free, the question comes down to the level of tax savings that can be achieved by replacing employment income with TTR income. Pension income is taxed differently depending on the age of the recipient.

For persons over age 60, their TTR pension is completely tax-free, meaning the tax saving which is able to be achieved is the client's marginal tax rate (i.e. the tax that would have otherwise been paid on the salary sacrificed income), less 15 per cent (the tax rate which applies to the salary sacrificed income).

Like many super strategies, salary sacrifice contributions are more effective for higher income earners (at least up to $300,000 this financial year and $250,000 next year).

However, those under 60 have the taxable component of their pension taxed at their marginal tax rate, with a 15 per cent offset. If a person has a TTR pension which consists wholly of taxable monies, there would be no tax benefit gained, since the 15 per cent tax paid on the contribution offsets the TTR tax rebate – resulting in the same tax outcome.

Given this, the benefit of a TTR strategy for someone under age 60 is reliant on the tax-free component of their super benefit, as this is not taxed even under age 60.

There's a final complication for those under 60 that can come into play in determining the amount of capital used to commence a TTR pension.

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Arguably, the removal of the anti-detriment payment would highlight a need to reconsider withdrawal and recontribution strategies in general, to help minimise the tax burden for non-dependent beneficiaries, particularly adult children.

If a client has significant super capital, the minimum pension that would be required if they used their full super savings to start a pension could exceed the level of income which would be needed to replace the salary sacrificed income.

Since the aim of the strategy is to obtain a tax benefit, forcing the client to receive a higher level of taxable income by maximising the capital value of the pension, could unwind the tax savings provided by the strategy.

Consequently, a lot of consideration should be given to the purchase price (the starting value) of the pension under current rules and this will be a key consideration in the new regulatory environment, where additional personal taxes cannot be offset by savings on investment earnings.

On this basis, the combination of the lower concessional contributions cap, the complexity and costs of maintaining a second super account for the TTR pension and now, the loss of the tax-free earnings, will for many people result in this use of the TTR pension being relegated to the 'nice but not widely applicable' corner of the financial planner's toolkit.

3. Accessing tax concessions

The final common use of TTR pensions are those pensions started by people who may not need the additional cash flow, but do seek a tax-free earnings environment for their super capital.

Given that a TTR pension has a minimum pension drawdown, which must be paid each year, either the earnings on the transition to retirement would have to exceed 4 per cent or the person needs to have capacity to recontribute the pension payment back to super to ensure their desire to obtain a tax-free investment vehicle is not undone by the pension payment 'leakage'.

Some individuals have used their transition to retirement pension payments as part of a 'withdrawal and recontribution' strategy to increase the tax-free portion of their super benefits over time. They do this by drawing on their mostly taxable component of the TTR pension and re-contributing this as a non-concessional contribution, increasing the tax-free component of the client's combined super benefits.

Arguably, the removal of the anti-detriment payment would highlight a need to reconsider withdrawal and recontribution strategies in general, to help minimise the tax burden for non-dependent beneficiaries, particularly adult children.

However, now that capital gains realised within a TTR pension will be taxed at up to 15 per cent, the tax paid on the redemption of assets to physically pay the funds out of super using a TTR pension to undertake this strategy, may not provide an optimal outcome.

Overall, using a TTR pension to simply access tax-free earnings will not be a strategy available from 1 July 2017. However, some clients may still use a TTR pension to implement a withdrawal and recontribution strategy.

What benefits do TTR pensions have going forward?

Whilst the tax changes reduce the benefits of a TTR pension, one key point is sometimes lost in the noise – and that is a TTR income stream is still a pension. Pensions are separate interests to accumulation accounts and provide some unique benefits relative to accumulation accounts, which are separate to the tax treatment of both the investment income and pension payments.

Firstly, a SMSF is only able to have a single accumulation interest for each member, however, they can have many separate pension interests. This allows for tax component isolation strategies where TTR pensions are commenced to potentially separate tax-free monies from future taxable contributions.

Another benefit of pensions being separate interests is in dealing with death benefits. Each unique pension can have a separate death benefit nomination, and TTR pensions can also have reversionary beneficiary nominations to ensure the income stream passes to the intended beneficiary smoothly, should the income from the pension be required to meet the beneficiary's day-to-day costs, and an interruption in that payment may cause issues.

Finally, as a pension, the tax components of a TTR pension are locked in their proportions on commencement. This could be a double-edged sword, relative to accumulation accounts that have a fixed dollar tax-free component and investment return impacting only the taxable portion.

If the pension value increases over time, the dollar value of the tax-free portion would increase as well. However, poor investment performance will reduce the absolute value of the tax-free portion, since the proportion is locked, not the fixed dollar figure. However, given an appropriate investment timeframe and portfolio selection, it may be possible to reduce the risk of permanently losing tax-free monies.

Conclusion

Though the humble TTR pension may not have the pride of place in the planner's toolkit post 1 July 2017, that is not to say this pension does not have a place in the new world. Individuals who require tax-effective income may still look to transition to retirement pensions for this, and over age 60 salary sacrifice strategies using a TTR pension may still be viable.

Josh Rundmann, Technical Services Manager, IOOF.

QUESTIONS

1. From 1 July 2017, what is the tax rate that applies to income generated within a transition to retirement pension?

a. Nil.

b. 15 per cent.

c. 10 per cent on capital gains only.

d. The first $15,000 of earnings is free of tax, and 15 per cent applies on the excess.

2. What is the primary factor determining whether a tax saving can be achieved using a combination of salary sacrifice and TTR income for someone under age 60 post 1 July 2017?

a. The tax-free component of the super benefit.

b. The total super balance of the member.

c. The expected working life of the member.

d. Whether the super fund offers in-specie transfers of assets.

3. What differences does a TTR pension have over an accumulation interest?

a. The ability to have a reversionary nomination.

b. Fixed tax components.

c. SMSFs are able to hold more than one TTR account per member.

d. All of the above.

4. From 1 July 2017, the taxable component of a TTR pension is taxed at a flat rate of 15 per cent for persons under age 60.

a. True.

b. False.

5. Which of the following statements regarding proportionally fixed tax components relative to having a fixed dollar tax-free amount is correct?

a. During periods of negative investment returns, proportionate components will create a greater tax-free portion than the fixed components.

b. During periods of positive investment returns, proportionate components will create a greater tax-free portion than the fixed components.

c. Regardless of positive or negative investment returns, the proportionate component will always provide a greater tax-free portion.

d. Regardless of positive or negative investment returns, the fixed component will always provide a greater tax-free portion.

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

The changing landscape of life insurance

RACHEL LEONG
BT

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes

- LIF legislation
- Grandfathering provisions
- Code of Practice
- Policy longevity strategies

The life insurance industry has been under increased scrutiny over the last few years, beginning with ASIC's report, the *Review of Retail Life Insurance Advice* (REP 413) in October 2014 and continuing today.

REP 413 concluded that the industry was in need of reform, specifically recommending that remuneration arrangements should change to be aligned with consumer interests, to ensure that the focus was on the priorities of the client. The Trowbridge report and the Financial System Inquiry (FSI) followed, both coming to the same conclusion.

In early 2016, media reports focusing on customers' claims experiences and insurers' claims practises caused some insurers to make independent assessments of their processes and product definitions, to ensure that their policyholders were not disadvantaged. This work then fed into the ASIC claims report (REP 498 – *Life Insurance Claims: An industry review*), issued in October 2016.

In September 2016, Senator John Williams proposed that the Parliamentary Joint Committee (PJC) on Corporations and Financial Services launch an inquiry into the life insurance sector, including an examination of insurance provided through superannuation.

In March this year, we saw some of Australia's largest life insurers appear at a number of hearings. They were questioned on a wide range of subjects, including mental health claims, privacy around medical records and staff remuneration.

A report on the inquiry will be tabled by 30 June this year, and the possible outcomes are further oversight and regulation by ASIC and APRA over life insurers.

In the meantime, we have seen many regulatory and industry initiatives come to fruition, as part of an effort to rebuild trust between the end consumer and either their planner or their life insurer. This article provides detail on these initiatives and what they mean for life insurance advice.

LIF legislation

The intended purpose of the Life Insurance Framework (LIF) legislation is to better align the interests of consumers with those providing advice. One of the potential issues identified in 2014 (in ASIC's REP 413) was that high upfront commissions may provide an incentive to replace policies inappropriately.

After extensive lobbying efforts by advisers, licensees, insurers and consumer groups, a draft bill and draft regulations were created, prior to the parliamentary election in 2016. The election caused the bill to lapse in April 2016, which then had to be reintroduced once the Coalition Government had been re-elected. The second bill was introduced in October 2016 and finally passed in February 2017. The final regulations were issued in March this year.

The legislation itself enables ASIC to create a legislative instrument, which can be used to set the maximum commission rates payable to financial planners under an upfront commission structure (80% + GST upfront with a 20% + GST trail from 1 January 2018, moving to 60% + GST upfront and 20% + GST trail by 1 January 2020), and the clawback provisions (100% of year one commission in the first year of the policy, 60% in the second year). The legislation also places a ban on volume-based payments from life insurers to dealer groups.

The regulations provide the detail required to implement these changes, such as when clawback provisions apply. For example, a clawback will not apply to a cancellation of policy or reduction in premium due to death, self-harm, reaching expiry age, claim, reduction in risk (e.g. smoker to non-smoker), or an insurer-led premium reduction or policy retention discount.

Commissionable premium

Under the legislation, the commission caps apply to the 'policy cost' of a life insurance policy. This is defined as the sum of the premium, frequency loading and policy fee. Policy cost does not include stamp duty.

Generally, across the industry, it is not current practise for insurers to pay commission on frequency loadings, policy fees or stamp duty. Therefore, while the initial upfront commission rate from 1 January 2018 may be 80% (or 88% including GST), in practise, the rate may be higher if some components were not previously included in commissionable premium. See Example 1.

It should also be remembered that the ongoing commission levels under the LIF reforms are generally double the rate of current ongoing commission rates, under an upfront commission structure.

Grandfathering provisions

The regulations state that grandfathering will apply to pre-1 January 2018 policies if an additional option is added to an existing policy or a new policy commences due to an administrative error.

Grandfathering is a critical part of LIF – it will mean that increases to premiums on pre-LIF policies can still generate 121 per cent upfront commission on that increase. However, if a policy commences in the first year of LIF (i.e. 88 per cent commission), any subsequent upfront commission payable will only attract a commission at the rate applicable at the time of the increase.

Grandfathering to pre-1 January 2018 policies will generally apply to:

- increases to the sum insured;
- the addition of a rider or optional benefit;
- changing from a stepped to level premium structure;
- increasing a benefit period or decreasing a waiting period of an income protection policy;
- changing from an indemnity to an agreed-value income protection contract; or
- changing from an any to own occupation total permanent disability (TPD) definition.

There may be other examples where alterations result in a premium increase.

Lapse reporting

As part of LIF, ASIC has requested regular reporting from all insurers on lapse activity for planners who meet certain thresholds.

Insurers will be required to provide to ASIC certain details for planners who have total in-force premiums above $200,000 and a 12-month lapse rate greater than 20 per cent for the relevant period. This report is generally provided to ASIC every six months, with follow-up detailed reporting requested on an ad hoc basis for particular planners (or licensees) who have been identified as being of interest to ASIC.

In addition to this reporting, ASIC will be collecting aggregated data in 2021, which will be used as part of the overall review of the LIF reforms. If this review suggests further reform is needed, consideration would be given to the FSI's recommendation to mandate level commissions. Regardless of whether this change takes place, planners will still be able to charge a fee for service, either in addition to or instead of a commission.

Code of Practice

The Financial Services Council (FSC) Code of Practice (Code) was released in October 2016 and developed through broad industry consultation, including consumer groups, planner groups, regulators, super trustees, legal groups, FSC members and the general public. Currently, compliance is voluntary during a transition period, however, it will become mandatory for FSC members on 1 July this year.

The Code encompasses what an insurer's minimum customer service standards should be, in regard to policy design and disclosure, sales practises, underwriting, standards when commencing, altering or cancelling insurance, and claims and complaints procedures.

The Code is principles-based, meaning that not everything will be stipulated in the Code. Rather, the insurer needs to adhere to the 'key code promises' by acting honestly, fairly, transparently and in a timely manner; with a particular focus on communicating with customers in plain language.

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Example 1: Upfront commission

	Pre-LIF (121% upfront commission rate)	Post-LIF (88% upfront commission rate)
Base premium	$4,000	$4,000
Policy fee	$89	$89
Frequency loading	$366	$366
Commissionable premium/ policy cost	$4,000	$4,455
Commission (including GST)	$4,840	$3,920
Commission (% of base)	121%	98%

There will be many practical outcomes stemming from the Code, such as obligations for internal sales staff and external distributors to ensure that only suitable products are sold to each customer, including ongoing training of such staff. Further, specialist training and teams may be required to deal with additional-needs customers, such as older individuals. This may be more applicable to direct insurance, as planners already have obligations to cater to their clients' individual circumstances.

Another example is using simple clear language in product disclosure statements (PDS), so that the client has a good grasp of cover that is, and is not, provided. Some insurers may adapt their current practice and take direction from suggestions made by the FSC regarding standardised trauma definitions. The FSC's suggestions include a proposed format for the text, using an explanatory heading, a brief description of cover, and specifically what is, and what is not, included.

The Code does not currently apply to superannuation trustees. However, it is intended that the second tranche of the Code will. A 'Statement of intent' issued by the FSC, together with a number of superannuation groups, was issued just prior to when the Code was published. It states that "super trustees and group insurers must work together to achieve the most suitable benefits for members".

The Insurance in Superannuation Working Group (ISWG) has now been set up for this purpose, with involvement from the Australian Institute of Superannuation Trustees (AIST), the Association of Superannuation Funds of Australia (ASFA), the FSC, Industry Funds Forum (IFF) and Industry Super Australia (ISA), some life insurers and superannuation funds, and consumer advocates.

The ISWG has released its first discussion paper (Account balance erosion due to insurance premiums), for which submissions were taken up to 7 April. Over the coming months, further discussion papers will be issued for industry consultation on claims handling, improving member communication and engagement, benefit design, use of technology to enhance efficiency, and a good practice guide for trustees in relation to meeting the obligations of the Code.

Widening APLs

This initiative has not yet progressed to a point where the industry knows what the minimum requirements will be. It will probably be set up as a membership standard by one or more industry bodies. Many licensees are already doing the background work, to determine which insurers are suitable, and can therefore be added to their approved product list (APL) when the requirements are released.

Advice businesses with single-insurer APLs will be the most affected by this change, as the minimum requirements may be very different to current arrangements.

Policy longevity strategies

The result of many of the above initiatives is that there will be renewed focus on policy retention. Therefore, we now turn our minds to what strategies can be utilised to help with the longevity of policies. We can view this from two perspectives:

1. What policy features/benefits should planners look for before commencing a policy to ensure that it can be amended as the client's needs change; and

2. How planners can help to ensure that the policy remains affordable over time.

Below we discuss these two points in more detail for both existing and new policies.

Existing policies

Reduce excess cover
Often calculators are used when determining the needs or sum insured of a client. As calculators have certain default assumptions, where these are simply accepted and not tailored to the individual client, the result can be a recommendation that is not aligned with the client's personal circumstances. Analysing the client's actual needs through a conversation with the client may produce a sum insured that is lower than what is obtained through a calculator.

Reduce overlapping cover
Calculators will also often view different types of cover in isolation. However, a planner will provide a comprehensive insurance solution, where a particular policy is tailored to work in conjunction with other policies. For example, instead of covering full income within a TPD or trauma policy, it may be more pragmatic to only cover the remaining 25 per cent of income not covered in an income protection policy.

Reduce cover as needs decrease
While the sum insured for many insurance policies will be indexed to the Consumer Price Index (CPI), this may not be in line with the client's requirements.
For example, if part of the cover is to extinguish debt, it is likely that debt will reduce over time as repayments are made, rather than increase.

New policies

In addition to the above mentioned strategies, the premium structure and policy features should be considered prior to commencing a policy.

Premium structure
Once the appropriate amount of cover has been established, the planner can correlate the time period in which particular needs exist, to premium structure. This is because stepped premiums are cheaper over a short timeframe compared to level premiums.

While there may be other factors to consider such as affordability, generally short-term needs align with stepped premiums and long-term needs may call for level premiums.

For example, if cover is to remove debt, the need will often be long-term, even if the sum insured reduces upon review. Therefore, structuring a portion of this cover under a level premium structure may mean that total level premiums are less than total stepped premiums.

Policy features

Features that are critical throughout the life of the policy include generous definitions. For example, insurers, such as BT, have begun including a future advancements definition in their medical glossary, to state that if any new and comparable diagnostic methods become available, they will also be considered. Or for income protection (IP) policies, choosing either an agreed value or indemnity contract will allow flexibility with defining pre-disability income, to keep up with a client's changing income.

IP and TPD policies with liberal total disability and total and permanent disability definitions, will remain suitable throughout the client's lifetime.

Features that become more important as the policy continues, include the future insurability benefit, late expiry ages and continuation options.

Future insurability benefit

The future insurability benefit (FIB) allows the insured person to increase their sum insured or monthly benefit upon a trigger event occurring, without medical underwriting. Generous policies will have 10 or more trigger events for lump sum cover, which include a number of life events, plus a periodic increase every three or five years. This becomes more important for older clients, as their health may deteriorate as they age. Therefore, it is also important to note the expiry age of the benefit.

Expiry ages and continuation options

A late policy expiry age will mean that the insured person can remain covered for a longer period of time. There may also be options to continue occupation-based IP or TPD cover past the normal expiry age if the insured person is still working on a full-time basis in a specific occupation class.

Alternatively, IP cover may be extended past the normal expiry age under a general cover definition, without providing medical evidence.

Other options may include transferring to a non-super policy where the insured person is no longer eligible to contribute to super, or if they have closed an aligned platform account, all without underwriting.

All of the above options provide flexibility and choice to ensure appropriateness and longevity of cover as a client's circumstances change.

Rachel Leong, Product Technical Manager, Life Insurance, BT.

QUESTIONS

1. From 1 January 2018, the clawback provisions will not apply in the following circumstances:

a. cancellation of policy or reduction in premium due to death, self-harm, reaching expiry age, or a claim.

b. cancellation of policy or reduction in premium due to reduction in risk, or an insurer-led premium reduction, policy retention discount or administrative error.

c. both of the above.

d. none of the above.

2. From 1 January 2018, commission is payable on 'policy cost', which is defined as:

a. premium, frequency loading and policy fee.

b. premium, frequency loading, policy fee and stamp duty.

c. premium, frequency loading and policy fee, less stamp duty.

d. premium, frequency loading and policy fee, less policy discounts.

3. The amount of upfront commission generated from increases to pre-1 January 2018 life insurance policies will:

a. be determined by the upfront commission rate payable at the time of the increase.

b. be determined by the upfront commission rate that applied at policy commencement.

c. not be payable, if the increase occurs after 1 January 2018.

d. not be payable, as only level commission rates are available now.

4. The purpose of the Life Insurance Code of Practice is to:

a. set the super fund trustee's standards in relation to all aspects of customer service.

b. set the super fund trustee's standards in relation to underwriting and claims service.

c. set the life insurer's standards in relation to all aspects of customer service.

d. set the life insurer's standards in relation to underwriting and claims service.

5. When determining whether a policy will remain suitable for a particular client as they experience life changes, the planner could consider:

a. premium structure and policy features.

b. overlapping and excess cover.

c. both of the above.

d. none of the above.

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

Complaints and Discipline Report

1 January 2017 to 31 March 2017

The FPA is committed to informing members and the community of the trends and outcomes of complaints and disciplinary action in the financial planning profession.

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

Complaint activity summary this quarter

In the January to March 2017 quarter, the FPA received eight new complaints, finalised eight complaints and had three ongoing complaints.

Of the new complaints:

- four related to alleged unethical and/or general conduct. All of these matters were summarily dismissed by the Investigating Officer – two due to the complaint not being about an FPA member, one due to the person complained about not being a member at the time of the alleged conduct, and one due to the Investigating Officer's assessment that the conduct complained about did not constitute a breach of the Code;
- three related to financial planning recommendations, of which two remain ongoing and one was summarily dismissed due to the complaint not being about an FPA member; and
- one related to a privacy complaint and was summarily dismissed due to the complaint not being about an FPA member.

Although summarily dismissed, particular complainants were given guidance about other avenues that may be available to them, such as internal dispute resolution (IDR), external dispute resolution (EDR) and the Office of the Australian Information Commissioner.

It was pleasing to note there have not been any academic misconduct matters investigated in this quarter.

Other than the six new complaints that were finalised within the quarter, there were two matters that were finalised following Conduct Review Commission (CRC) determinations issued in December 2016 and January 2017. (You can read about these matters on the FPA website at *fpa.com.au/wp-content/uploads/2017/04/ProfessionalAccountability-Actions-Outcomes_April-2017.pdf*)

Each of the three ongoing complaints are in varying stages of investigation phase.

In one matter, the FPA is awaiting further information from the complainant before the Investigating Officer notifies the member of the fact of the complaint in writing, provides a copy of the complaint and all supporting material, directing the member to any areas of concern identified by the Investigating Officer, and informing the member that they have the right to provide information to the investigation and make submissions in respect of the alleged conduct and any material obtained by the Investigating Officer. (Refer Section 3.2 of FPA Disciplinary Regulation 2016 *fpa.com.au/wp-content/uploads/2016/11/2016_09_28_Disciplinary-Regulation- 2016.pdf*)

In another matter, the FPA recently received the member's submission to the complaint and will now consider whether any further investigation is required or whether the Investigating Officer is in a position to prepare a report on the matter to the Chair of the CRC, setting out, among other things, whether the member has a case to answer in respect of committing one or more breaches of the FPA Code and recommending an appropriate course of action for the matter. A copy of the report is also given to the member at the same time. (Refer Sections 3.2 and Part 5 of the Regulation.)

In the final matter, the FPA has written to the complainant setting out the grounds upon which the FPA is minded to summarily dismiss their complaint and affording a final opportunity for the complainant to provide any additional information or material to the FPA, or to inform the FPA of any potential mistake of fact upon which the Investigating Officer may be relying in their assessment of the complaint.

While the FPA may summarily dismiss a complaint without providing a final opportunity to the complainant, in some cases it can be helpful to do so where it may assist the complainant to feel assured that their complaint has been properly considered. (Refer Sections 3.3 and 3.5 of the Regulation.)

Complaint activity this financial year

So far this financial year, the FPA has received 22 new complaints, which is comparable to the previous financial year. Nine complaints have been in relation to academic misconduct, seven of which related to sanctions imposed by the Professional Designations Committee and in two cases, there was no finding of misconduct. It is pleasing that there were no such matters in this quarter.

There were also two complaints about the failure to provide review services, however, these were both summarily dismissed and may have been vexatious.

Life Insurance Code of Practice: Tips to transition

The Life Insurance Code sets out the life insurance industry's key commitments and obligations to clients on standards of practice, disclosure and principles of conduct for their life insurance services, such as being open, fair and honest.

Dr June Smith, former CRC Chair and current Lead Ombudsman, Investments and Advice at the Financial Ombudsman Service, recently provided a number of 'Tips to Transition to the Life Insurance Code' at a forum to financial services providers.

Some of these tips may be helpful in providing insight to members around interpretation of the Life Insurance Code in various areas of member day-to-day practise, particularly in assisting clients with claims handling.

The full 10 tips are:

1. Consider section 7 obligations when designing claims handling compliance framework together with Principles 1.5 and 1.6.

2. Section 7.2 and 7.5 are also relevant to the obligations to section 8.

3. Section 8.24-8.26 will be considered in conjunction with other standards when assessing compliance.

4. Financial services providers (FSPs) will need to demonstrate how they formed reasonable belief under clauses 8.1(d), 8.12(b), 8.15 and 8.28.

5. FSPs should consider how they will ensure third party providers and agents will be appropriately skilled and trained to comply with code obligations (e.g. see 8.11, 8.12 and 8.20).

6. Communication is critical to successful compliance, including compliance with timelines, provision of information, handling requests for information and reviewing decisions.

7. FSPs will need to demonstrate how requests for information or assessment are relevant and reasonable.

8. FSPs will need clear links to an objective 'review framework' and lines of reporting (see 8.5, 8.9(e), 8.16, 8.17 and 8.30).

9. It is likely that the obligation to provide reasons for a decision to decline a claim in writing under 8.19 will be interpreted in light of clause 8.24-8.26 and the principles in 1.5 and 1.6.

10. The Code's objective under 1.4 is also likely to be taken in to account when interpreting whether a code subscriber has complied with a particular standard.

COMPLAINTS AND DISCIPLINARY REPORT

Complaints ongoing as at 01 January 2017	**3**
New Complaints	8
Complaints Closed	8
Complaints ongoing as at 31 March 2017	**3**
Members Suspended	0
Members Expelled (CRC) • Darren Tindall	1
Members Terminated (Constitution)	0
Other Sanctions (CRC) • Darren Tindall (Fine and costs)	1
Referred to Professional Designations Committee for Sanction	0

Guidance, reassurance or dilemmas

The FPA's Professional Accountability team enjoys hearing from members in relation to guidance, reassurance or dilemma.

If the team is unable to assist you itself, it will likely be able to assist you to find someone who can. You may contact the team by email at professional.standards@fpa.com.au or by telephoning Mark on (02) 9220 4523 or Kate on (02) 9920 4520.

Upcoming Chapter Events

WEDNESDAY 3 MAY
Western Australia

The **Western Australia** Chapter will be holding its FPA Women in Financial Planning Lunch, on Wednesday 3 May at Fraser's Restaurant.

The guest speaker, Sharon Warburton, is an accomplished businesswomen. Sharon will speak about leadership, mentoring for women in business, and the value of diversity.

This presentation is relevant for all planners who are striving, not only for success in business, but success in life. The Chapter welcomes anybody who supports diversity in the financial planning profession to attend this lunch, which is open to both women and men.

WEDNESDAY 17 MAY
Melbourne

Meanwhile, the **Melbourne Chapter** will be hosting its annual FPA Women in Financial Planning Lunch on Wednesday 17 May at the RACV Club on Bourke Street.

Anna Ross is the guest speaker. Anna is the owner and director of Kester Black – a business whose sole focus is the design and production of ethical and sustainable cosmetics and skincare.

Last year, Anna was named the 2016 Telstra Young Business Woman of the Year, an award that reflects her passion, courage and readiness to challenge the status quo – characteristics that then led her to commence a project with a goal to provide young women with a path towards better financial literacy.

Anna's inspiring story will leave attendees energised and motivated.

The sand wedge was a very popular club on the sandbelt course.

Teeing off for charity

The **Melbourne Chapter** Future2 Golf Day was held at the famous Commonwealth Golf Club 'sandbelt course' on 20 March. The Ambrose event was a huge success, with some great (and some not-so great) golf played.

Whilst some of the golfers attending this event said golf was the winner on the day, the real winner was the FPA Future2 Foundation. All money raised on the day will go towards creating a brighter future for disadvantaged young Australians in need.

The winners on the day were: (Left to R) **Andrew Greve, Mark Wenzel, Matt Hempel** and **Luke Marsden.**

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

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

NSW

John Khamis CFP®
Archangel Wealth Management

Ronald Ngo CFP®
Shadforth Financial Group

Daniel Fogden CFP®
Centric Wealth Advisers

WA

Peter Campbell CFP®
Nexus Wealth

Drumming to the beat

headspace Port Macquarie is a 2016 Make the Difference! Grant recipient, receiving $10,000 for its Holyoake Drumbeat program. *Financial Planning* spoke to Jenny Sinclair about what winning the grant means for the youth of Port Macquarie.

GRANT RECIPIENT: **headspace Port Macquarie**

GRANT AMOUNT: **$10,000**

Endorsed by: **Warrick Affleck CFP®, Compass Financial Management**

FPA Chapter: **Mid North Coast**

What is EACH – headspace?

headspace is the National Youth Mental Health Foundation providing early intervention mental health services to 12-25 year olds, along with assistance in promoting young people's wellbeing. This covers four core areas: mental health, physical health, work and study support, and alcohol and other drug services.

The program in Port Macquarie is run under the guidance of EACH, a not-for-profit organisation with over 40 years' experience in the delivery of social health programs.

How are you utilising the $10,000 Future2 grant for the Holyoake Drumbeat program?

The funding will cover staff training, purchasing 10 drum kits and the lessons.

How is the grant making a difference to the lives of disadvantaged youths?

The program is about building resilience and self-confidence and helping engage young people. This program will focus on different relationship themes during the 10 week course including, low self-esteem, identity and social responsibilities, values, dealing with emotions, peer pressure, harmony, community and team work.

How important are grants, like Future2's, for your programs?

Grants like Future2's are extremely important because without opportunities like this, we are unable to implement programs, such as the Holyoake Drumbeat program. This program has enabled us to open up our services to young people, using a different platform, and targeting young people who may not otherwise engage with it.

By using drums, the Holyoke Drumbeat program seeks to engage youths and help them build resilience through rhythm.

Jenny Sinclair is NSW operations manager at EACH NSW.

Community focus

Warrick Affleck's decision to endorse headspace Port Macquarie was due to the clinical and counselling support it provides youth in the Port Macquarie region. In particular, the Holyoake Drumbeat program, which is one of many programs that the organisation has developed to reach out to youth who need assistance with everyday life and relationship matters, ranging from low self-esteem and emotional vulnerability, to bullying, social responsibilities and drug-related problems.

Warwick is actively involved with headspace Port Macquarie, having participated in committees and as a community ambassador for the organisation.

"Our ambassador program strives to create greater awareness about headspace Port Macquarie by reaching out through different sectors of the community to local youth," Warrick says.

"Some of our local community's 'high achievers' are ambassadors of headspace Port Macquarie. They include: two time paralympian gold medallist, Ryley Batt; two time world body-boarding champion, Damien King; through to ex-Waratah and now Port Macquarie-Hastings Council Lord Mayor, Peter Besseling."

Warrick believes having the Future2 Foundation support a regional community organisation, like headspace Port Macquarie, is a great reflection of the support the FPA provides to members who are trying to make a difference in their local community.

Gifting on the pension

Since the pension assets test changes on 1 January 2017, there has been talk about gifting and how this may affect the Age Pension.

If your clients are considering helping out family or friends, there are important things they need to know about how their payment may be affected by giving away money or assets, or how giving away income is differently assessed.

Gifting is determined when assets are given away without receiving something of at least the same value. This will reduce the net value of their overall assets by the amount they gifted.

It is not classified as gifting if they exchange assets for other assets of equal value.

Examples of gifts include:

- buying a car for their son;
- giving away shares to a friend;
- forgiving a loan to their daughter; and
- having a lender take their funds because they went guarantor for somebody else.

Gifting reduces assets, which may increase the Age Pension. However, there are limits to this.

Single people or couples can give away up to $10,000 in a financial year, although not more than $30,000 over five consecutive financial years, and the only change to their pension would be an increase due to their reduced assets.

It is not appropriate that individuals give away assets, then rely on the community for support. Therefore, any gifts over those thresholds will be assessed as their asset for five years and be deemed to be earning income.

Example

Your client takes $100,000 from their bank account and gives it away. The Department of Human Services will reduce the amount recorded for the bank account, but will also add a $90,000 gift asset for five years. The net reduction is only $10,000, so will only result in a maximum pension increase of $780 a year.

After five years, the gift will no longer be assessed. But even if this results in a pension increase of $7,800 a year, it will take at least 17 years to recoup the original value.

An alternative to relying on increases in the Age Pension obtained from gifting is if your client draws down this amount. This would still have the long-term effect of decreasing assets but without being considered gifting.

If your clients would like more information on how gifting can affect their Age Pension, or other financial questions, they can speak to one of the Department's Financial Information Service Officers or visit humanservices.gov.au and search for 'Gifting'.

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