

OCTOBER 2018

VOLUME 30 | ISSUE 09

# MONEY & LIFE

*The magazine for* FINANCIAL PLANNING PROFESSIONALS

## Pocket rocket

FINN VICARS AND  
BUILDING A BETTER FUTURE

Clare Payne

ETHICS AND INDIVIDUAL ACCOUNTABILITY



INSURANCE INSIDE SUPER | WELLNESS AND LONGEVITY | CONGRESS 2018  
SHARE THE DREAM WRAP-UP | STRATEGIC THINKING



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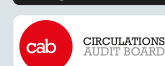
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## LIVE CONFERENCES MORE RELEVANT THAN EVER

It's never been easier to access information. With one click, you can get instant and infinite exposure to data and opinions, as well as opportunities to share, comment and critique without leaving your desk.

Even in this era of mass digital connection, nothing replaces face-to-face. That's why I'm excited to see so many of you already registered for this year's **FPA Professionals Congress**, taking place at ICC Sydney from 21-23 November 2018. If you haven't yet registered, head to [fpacongress.com.au](http://fpacongress.com.au).

Our profession has never experienced such transformation. Attending the FPA Congress is an important opportunity to gather with 1,000 or so of your professional colleagues, and unpack the challenges and opportunities ahead of us.

The Congress program will include sessions to give you the very latest updates, and to share advice and resources to support you through the new professional environment.

### FINANCIAL PLANNING WEEK 2018

This year's Financial Planning Week was all about encouraging those of us who are parents, grandparents, aunts, uncles and friends, to evaluate our role in the future financial wellbeing of the younger generation.

We published an eBook that was full of advice, tips and activities to inspire Australians to talk money with their kids in a tangible way and to combat the invisible nature of our increasingly digital economy.

This was backed by our new research report, which uncovered our nation's readiness for the future of money. So far, over 2,000 people have downloaded their copy of our eBook.

Financial Planning Week may have ended, but these resources are available year round for you to share with clients and contacts. To access the Financial Planning Week toolkit, just head to the Member Centre in the FPA website.

### PREPARING YOU FOR THE NEW STANDARDS

As FASEA begins to confirm the education standards for our profession, we are working on a new program to help you navigate the climate ahead.

The **FPA Return to Learn** program, launching later this year, will provide a suite of resources to help you smoothly transition in the areas relevant to you: from guiding you through the education pathway, understanding exemptions, preparing for the exam, and undertaking further study as needed.

As we develop the program, we're keen to get your input on the information and tools that you need. Please share your ideas with us at [policy@fpa.com.au](mailto:policy@fpa.com.au).


Enjoy this edition.

*Dante De Gori CFP<sup>®</sup>, CEO*



Follow Dante on Twitter @ddegori10





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## KEY DRIVERS TO ADVICE FIRM OF THE FUTURE

In an ever-evolving advisory landscape, the traditional role of the financial planner is changing. Today, more emphasis is being placed on client relationships and soft skills (48 per cent), with one-third (35 per cent) of planners believing there is an increasing need for them to be more resilient and adaptable to change.

These were two of the key findings to come out of the *Macquarie 2018 AFS Benchmarking Report*, with 11 per cent of advice firms reporting there was an increasing need to become a specialist, and only 6 per cent saying there is a greater need to focus on technical skills.

“What will it take to be an advice firm of the future?”, asked Sherise Mercer – Head of Macquarie’s Virtual Adviser Network. “The *Macquarie 2018 AFS Benchmarking Report* shows that high performing practices will be concentrating on three core areas: clients, staff and systems.”

### 1. CLIENTS

Speaking at a recent industry event, Mercer said the report showed a clear separation between high performing benchmark firms (surveyed between November and December 2017), compared to a wide variety of firms surveyed throughout 2017.

“We asked planners what they believed were the most effective strategies to improve profitability in the current market, and 68 per cent of the benchmark firms said, ‘Adding value to existing clients’,” Mercer said.

According to the report’s findings, in terms of focusing on what matters to clients, firms were placing greater emphasis on personalising the

experience for clients, with 74 per cent of the firms recording an increase in client referrals as a result.

“High performance advice firms are improving their profitability through referrals,” Mercer said. “They are doing this by ensuring they clearly articulate their value proposition, are generous with their time in educating their clients, and know who, when and how to ask for referrals.”

She added that advice firms were preparing for future growth by engaging with the next generation of clients. The research found that 82 per cent of benchmark firms engaged with the adult children of their current client base, compared to 67 per cent of all firms.



Sherise Mercer

“The next generation of clients want their planner to be able to identify their needs and connect them with other professionals, like accountants, to help them with their money management. They also want a responsive service, with speed and efficiency of implementation.”

### 2. STAFF

When it came to improving their business profitability, the retention of high-performing staff was also an important consideration for 64 per cent of the benchmark firms. And while staff remuneration was also an important factor in retaining staff, the research found that 78 per cent of high

performing organisations were also using workplace flexibility, training opportunities and a positive workplace environment, as important inducements for rewarding and retaining staff.

### 3. SYSTEMS

Another effective strategy identified in the report to improve business profitability was the use of technology and systems. Seventy-eight per cent of the benchmark businesses recorded improved profitability through efficiency gains using technology, with 72 per cent seeing an improvement in profitability through process improvements.

In fact, of the benchmark firms surveyed in the report, 28 per cent were intending to introduce a new CRM system, 24 per cent a new client portal, 24 per cent were intending to roll out a managed accounts offering, 18 per cent were going to introduce new data aggregation and dashboard tools, and 14 per cent were implementing a new client mobile app.

“For an advice business to remain profitable and relevant to clients in the years ahead, it needs to understand the key drivers that underpin successful businesses: clients, staff and technology. By doing so, an advice firm can position itself for future growth,” Mercer said.

The *Macquarie 2018 AFS Benchmarking Report* is based on the *2017/18 Macquarie Accounting and Financial Services Benchmarking survey*, conducted in December 2017, and the *2017 Macquarie Propensity Project surveys* conducted throughout 2017.





# ASIC REVIEWS INSURANCE IN SUPER

ASIC has released its report on the provision of insurance cover through superannuation. *Report 59 Insurance in Superannuation*, reviewed 47 superannuation trustees, with a focus on:

- insurance claims and complaints handling;
- disclosures about insurance (including about cover ceasing);
- insurer rebates paid to trustees; and
- whether members were defaulted into demographic categories that resulted in higher premiums.

According to the regulator, the review uncovered a number of concerns, including:

- poor complaints-handling timeframes and practices, as almost a third of trustees in the review took more than 90 days on average to resolve complaints about insurance in 2017-18; and
- some trustees were still automatically defaulting members as 'smokers' when transferring them to different sections of the same fund, resulting in higher

insurance premiums payable by those members. All trustees have since agreed to discontinue this practice.

ASIC Deputy Chair, Peter Kell, said that while some improvements were being introduced by trustees, there was considerable work to do to raise standards in the areas covered by the review.

"In the coming months, ASIC will be focused on ensuring that members do not experience adverse outcomes arising from poor complaints handling or inappropriate defaults," Kell said.

"It is essential that trustees meet their obligations to deal with consumer complaints about superannuation in a timely manner and provide reasons for decisions as required."

The regulator has confirmed that it will be consulting on stronger internal dispute resolution requirements for superannuation funds, after the Australian Financial Complaints Authority commences operations in November. This will require greater transparency about



Peter Kell

complaints handling performance by superannuation funds.

In addition to the results of the review, the *Insurance in Superannuation Report* sets out actions trustees should take to achieve better outcomes for members who acquire life insurance coverage through their superannuation funds.

*Report 591 Insurance in Superannuation (REP 591)* can be accessed at [www.asic.gov.au](http://www.asic.gov.au)

*The FPA congratulates the following members who have been admitted as*

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## SHARE THE DREAM

This year's Financial Planning Week (20-26 August) was overwhelmingly successful, with the 'Share the Dream' campaign helping to re-engage and re-establish trust and awareness of financial planning among consumers and the media.

The 'Share the Dream' campaign focused on the next generation – the 'invisible money generation' – for whom the digital economy will be the norm.

Through national media coverage across television, radio, print and online, the campaign reached a combined potential audience of 156 million. This was achieved through: 106 online articles; 25 print articles; 181 radio mentions; and nine live television segments across 179 channels nationally.

Commenting on the campaign, FPA CEO, Dante De Gori CFP<sup>®</sup> said: "Financial literacy is key to people making confident decisions that shape their financial future. This year's theme opened up conversations about the importance of financial wellbeing for the whole family, including future generations."

The 'Share the Dream' campaign included national research that uncovered the views of 1,000 parents of Gen Z and Gen Alpha (4 to 18 years) on raising the 'invisible money generation'. The research helped to identify the gaps in knowledge and expectations around money between the generations.

The campaign also included engaging videos of kids and their curious ideas of money, a downloadable eBook with tips and insights to teach kids about money, and insightful content on the FPA's consumer facing **Money & Life** website.

The campaign was also heavily promoted on social media via the hashtags – #SharetheDream, #FPWeek18 and #InvisibleMoneyGeneration.

### Key results

- **Over 2,000 eBook downloads**
- **Over 40,000 views of Money & Life**
- **Over 380,000 views of the campaign videos**
- **Over 1.8 million people reached on social media**
- **Over 19,000 profiles viewed on Find a Planner**

To view the eBook, campaign videos, research report and articles, go to:  
**[moneyandlife.com.au/  
share-the-dream](http://moneyandlife.com.au/share-the-dream)**

**In 2017 AIA Vitality members visited a gym 194,139 times.**

**And it's no wonder – AIA Vitality offers members up to 50% off their annual gym membership.**





"During Financial Planning Week, we also hit a milestone, reaching over 10,000 Facebook followers and over 10,000 subscribers on Money & Life," De Gori said.

"I encourage all FPA members to continue to share the Financial Planning Week resources among your own networks. The research report, eBook, videos and content are all available at the Money & Life website ([moneyandlife.com.au/share-the-dream](http://moneyandlife.com.au/share-the-dream)).

"While Financial Planning Week has wrapped up for 2018, we are committed to building awareness and trust in the financial planning profession among consumers, year round."



## IN THE MEDIA

The campaign featured in 491 media clips across TV, radio, print and online, reaching a combined potential audience of 156 million.



TODAY Show



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Studio 10



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# OUT AND ABOUT

FPA members enjoyed in Ballarat and a half



## FUTURE READY *seminar*



WE LOOK FORWARD TO SEEING MEMBERS AT THEIR NEXT LOCAL CHAPTER EVENT. **FOR UPCOMING EVENTS, VISIT [FPA.COM.AU/EVENTS](http://FPA.COM.AU/EVENTS)**

The **FPA Western Australia Chapter** conducted a half day seminar on **12 September**, with four speakers providing their insights on future proofing your business. Speakers included: **Sam Cawthorn**, an authority on resilience and how to move forward in the face of change; **Terri Reid** from Traxiom, spoke on 'To retire or not to retire'; **Courtney Lauren** from Macquarie presented on 'What will it take to be a firm of the future'; and **Darren Joseph** from Praemium facilitated a session on 'The next wave of advice'.



some recent Chapter events, including a Financial Planning Week morning tea day seminar in Perth.

## *morning tea in* BALLARAT



*The FPA Ballarat Chapter celebrated **Financial Planning Week** with colleagues and friends at a morning tea at Oscar's Hotel on 23 August.*

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## OPINION CORNER

# CONNECT, CULTIVATE, COMMUNICATE

**Question:** As the theme of this year's Congress, what does 'Connect, Cultivate and Communicate' mean to you?



**Cath Sharples-Rushbrooke CFP®**

**Manager, Advice Services Australia**

**Licensee:**  
Advice Services Australia

It is extremely rare that a person can achieve anything truly great in isolation, hence it is important to understand who your team is.

At Advice Services Australia, we recently undertook a mindfulness business exercise to become more conscious of everyone who makes our business work; everyone we connect with and how we communicate with them.

This included clients, referral partners, internal and external team members from all areas across our business (i.e. technical specialists, administration, investment, insurance, compliance, marketing, technology, finance, HR professionals and so forth). We also consulted our financial product and service providers, regulators, our network of peers/other businesses, and our professional association (FPA).

We discussed when to use the different methods of communication (email, phone, web, social media, print and face-to-face) to create efficiencies and optimise meaningful exchange for both parties.

Having been involved in training and education for financial planning and accounting professionals for several years, I firmly believe that those who cultivate a practice of life-long learning are best able to deal with the challenges faced in the modern workplace.

This includes completing formal qualifications and all forms of continuing professional development (such as attending professional development seminars and webinars, short courses, workshops and conferences). Reading and networking with other professionals also supports an exchange of information and ideas.

Professionals who embrace life-long learning; who create the space and time to connect, cultivate and communicate and to implement these learnings, are successful – both professionally and personally.



**Greg Tindall CFP®**

**Practice Principal and Financial Planner, MiQ Private Wealth**

**Licensee:**  
MiQ Private Wealth

As a financial planner, you cannot establish trust and cultivate long-term client relationships without open and honest communication skills. It is vital to communicate with clarity and confidence. If you do not truly believe in what you are saying, it will be evident to your client.

The Congress provides delegates with the opportunity to connect with peers and gain exposure to a wide variety of topics and subject matter experts.

By taking time out of your business to enhance your technical knowledge and skills, you will be able to harness the learning outcomes and enhance your ability to communicate with influence.



## Question: As the theme of this year's Congress, what does 'Connect, Cultivate and Communicate' mean to you?



**Nathan Nash**  
CFP® LRS®

**Director – Private Wealth,**  
Scarlett Financial  
**Licensee:** Lonsdale Financial Group

Connect, cultivate and communicate; these three things couldn't be more important at present, with the Royal Commission underway and the public perception of financial planning at all-time lows.

'Connecting' with clients, 'cultivating' action and 'communicating' value appears natural to me, yet it also takes imagination, initiative and focus. However, mastering these skills will deliver stronger relationships, more positive outcomes and a successful financial planning practice.

Connecting with a client is that part I feel should be more natural. To me, it's about listening to and uncovering the client's concerns, desires and individual circumstances. It's about understanding our client's needs and demonstrating that we have a genuine interest to help them.

Cultivating action can be the biggest hurdle. Why? Because people often lead busy lives or their easy going nature delays that initial action. What's needed is imagination and initiatives to keep people

motivated, processes efficient, the experience easy and outcomes exciting.

Technology can play a significant role here, whether it be video, Skype, electronic applications, mobile apps and the like.

Communicating value is important from the initial client meeting and doesn't lose relevance throughout the relationship. You may connect well with a client from the initial meeting but to have an ongoing financial advice relationship, you will need to communicate the benefit of your advice effectively.

People need to understand they are actually in a better position after paying for your advice. I believe this is an industry issue, with industry super funds focusing people on fees and no advice.

We really need to be more effective in our communication of the benefits of a financial plan and sound advice, particularly when people are surrounded by constantly confusing and conflicting media noise about investments and advice.

To be successful working in one of the most rewarding professions available, by helping good people realise their dreams, we need to focus on Connecting, Cultivating and Communicating.



**Dacian Moses CFP®**

**Director and Financial Planner,**  
Waterfall Way Associates  
**Licensee:**  
Waterfall Way Associates

Financial planning is an emerging profession. It feels, however, like we have been emerging for some time and the transformation is not yet over.

In addition to transformational social and legislative change, we are on the cusp of yet another enormously disruptive global technological change.

To remain relevant, valuable and capable of making a significant positive difference to the lives of our clients, we need to become more human.

We need to distance ourselves from value propositions that can be done by algorithms and robots.

We need to focus less on 'compliance' and focus

more on the best interest of our clients, our community and our society.

The very same technology that is disrupting our world, enables us to connect with more people, more effectively than ever before.

Through these connections, we can cultivate a shared understanding of our place in the professional framework and the society that we want to live in.

As a profession, we then communicate this to the public clearly, concisely and effectively.

I understand the theme of this year's Congress to be a positive expression of the need to look beyond the immediate obstacles and battles that must be fought, towards what we want to become.





“

## Question: As the theme of this year's Congress, what does 'Connect, Cultivate and Communicate' mean to you?



### Connor Shears

**Student studying a Bachelor of Business with a finance major, Edith Cowan University**

To me, 'connect' has two meanings in relation to financial planning. The first means coming together as a community of financial planners, either in person, online or through a forum like the FPA Professionals Congress, to get to know more planners of all ages from all over Australia.

The second meaning would be connecting with clients who walk through your door, and establishing a relationship between the client and planner.

'Cultivate' means developing and educating. As a profession, by connecting with one another, we can promote ideas within the community and roll out initiatives across the country, in order to benefit our local communities – from school children to senior

citizens. We can also help educate and improve our clients' basic understanding of personal finance, which will help enhance the understanding of other generations to come.

'Communicate' is the way in which planners portray their ideas and expertise to their clients, in order to benefit their clients. I also see this as the process that is needed to enable planners to connect with and cultivate the people around them.

I believe with the concepts of 'connect', 'cultivate' and 'communicate', we will continue to see the future development of up-and-coming planners, which will make this a profession that students want to be a part of.

*The FPA Western Australia Chapter is sponsoring Connor Shears' attendance at the FPA Professionals Congress through the FPA Chapter student sponsorship scheme. Connor is currently enrolled in a Bachelor of Business degree, majoring in Finance at Edith Cowan University.*



### Fran Hughes CFP®

**Director and Financial Adviser, Intuitive Money  
Licensee: Infocus Securities**

*"Connection is the energy that exists between people when they feel seen, heard and valued; when they can give and receive without judgement; and when they derive sustenance and strength from the relationship."*  
– Brene Brown.

Such is the case when the community of FPA members come together at the annual Congress. An energy is created when financial planners, industry professionals, business owners, staff and supporters of the profession connect and cultivate new ideas.

From an idea, seeds of innovation are germinated, synergies created and strong relationships formed. It is an opportunity for this community to hear from

thought leaders, experts and from the head of the FPA.

The FPA community is in this profession of financial planning to make a difference to the lives of many. By helping more people achieve their financial dreams, we in return are rewarded and fulfilled.

The FPA Professionals Congress is that place I come back to, time and time again, to connect with peers, cultivate new ideas for growth, and communicate with supporters of the profession.

It is thanks to this body of professionals that I am able to continue making a difference to the lives of many working Australians and gain so much from the work we all do as a collective!

**Would you like to join our panel of FPA members willing to voice their opinion on various topical issues?**

Email [editor@paperandspark.com.au](mailto:editor@paperandspark.com.au) to register your interest.



# COMMUNICATE

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GUEST CONTRIBUTOR

## ETHICS AND THE PUSH FOR ACCOUNTABILITY

Being successful in business today is all about ethics and trust, particularly as more people look to choose products and services that match their own values and beliefs. **Clare Payne** discusses what this means for financial planners.

Across the banking and finance sector globally, there have been increasing calls – and a subsequent focus on – the accountability of individuals for the impacts of their decisions and behaviours.



Clare Payne

the banking and finance sector as an assurance they can be trusted to effectively engage in self-regulation.

Trust is a somewhat fragile commodity because it can be won and lost easily. Sometimes it's lost

This change is being led by regulators, customers and the community more broadly. They have called for individuals to be held accountable for the impact and losses experienced by clients as a result of poor financial advice, excessive risk-taking or products that have operated unethically.

Regulators are taking steps to hold individuals accountable for their actions, with prosecutions in courts that can lead to fines, criminal or civil liability and professional disbarment.

The managing director of the International Monetary Fund, Christine Lagarde, publicly approves of this strengthening of personal accountability, believing it will provide the right set of incentives for ethical behaviour. At the Federal Reserve Bank of New York, Lagarde called for a culture of greater virtue and integrity at the individual level in financial services. She specifically stated that cultural change within the sector should involve appealing to the 'moral compass' of individuals.

### AS TRUST DECLINES, PROFESSIONAL ASSOCIATIONS MUST STEP-UP

Professional associations, such as the FPA, have an important self-regulatory role in setting and promoting ethical standards and holding their members to them. Such associations are increasingly pointed to by

unfairly, but at other times, it's misplaced or abused. Perhaps this has always been the case, but in many ways, we're now more informed, more questioning and even critical as both practitioners and customers.

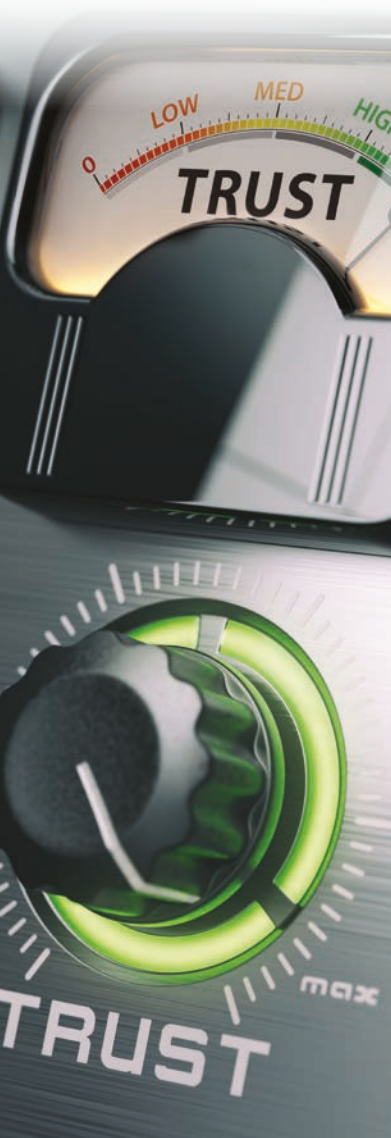
The result is that we are better equipped than ever to question who and what we should trust. On the whole this is a good development because we're aware that trust matters and this awareness will likely lead to better outcomes for society.

However, the continued decline of trust across business has resulted in deep reflection by the practitioners within it; they have had to consider their role, and question who they are serving and whether they are meeting expectations.

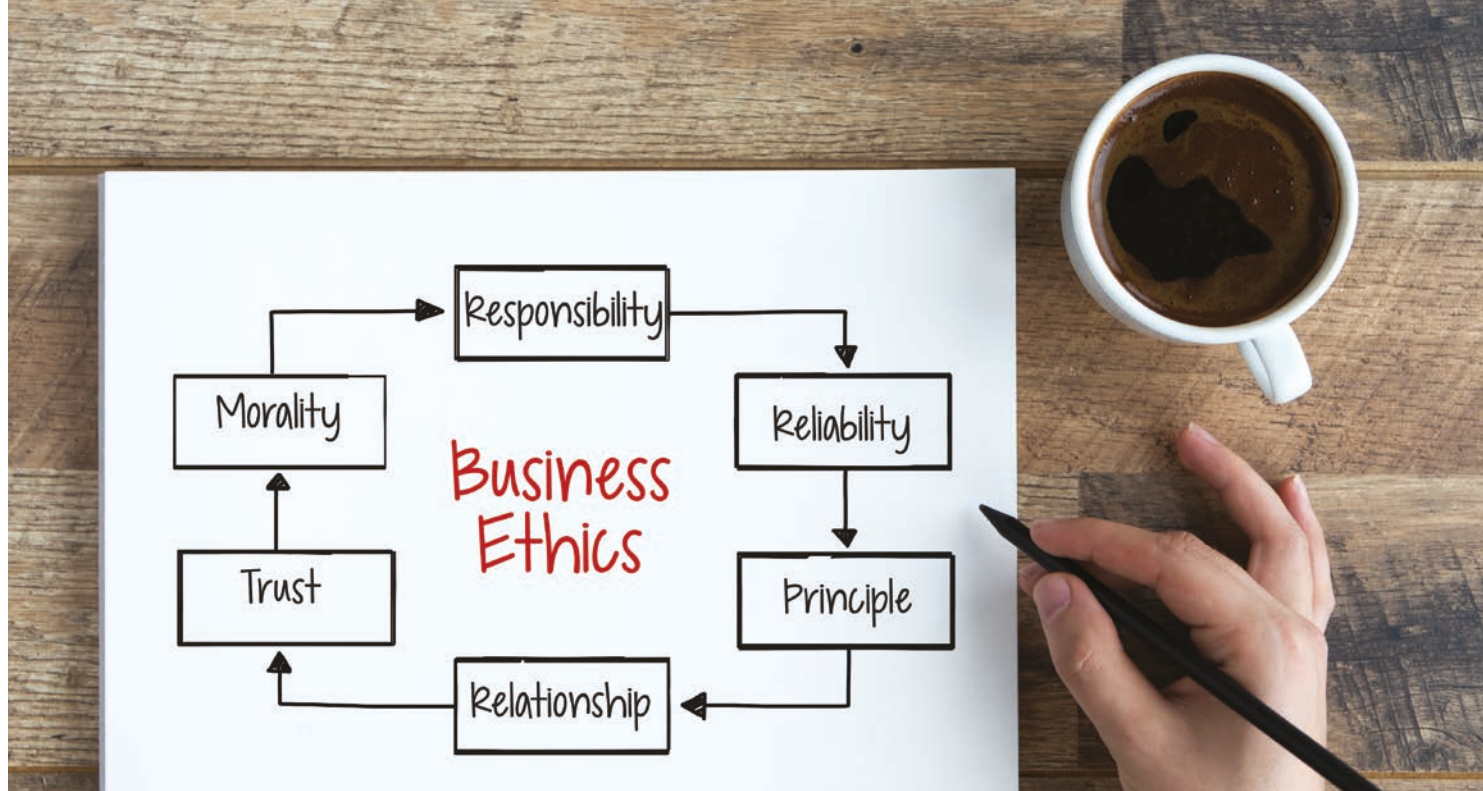
As a result, we're moving from a narrow view of the primary stakeholder (being profit or the shareholder) to a broader concept of impact and value – this shift has been much needed.

This shift matters to banking and finance as it's distinct from other businesses because we are forced, as working adults, to have a relationship with a financial institution in order to receive pay and to accumulate superannuation for retirement.

Therefore, we need and should be able to trust the sector and the people that advise us within it.







## THE LIMITS OF REGULATION

Growing inequity between what might be considered the 'haves' and 'have nots' can be seen at the centre of much political and societal unrest, leading people to question the systems and authorities they have previously trusted. The integrity of businesses and practitioners has come under new scrutiny. Are organisations delivering what they say they are? Are planners keeping their promises? Are they trustworthy? These are now common questions.

We can't leave it up to regulators to curb unethical behaviour, instead, we all have a role as individuals to create the ethical cultures we want in business and in our communities.

Regulators are often in a bind, with much to do and funding limitations. At times they trail a fast moving and constantly innovating market.

Whilst regulators have an important role in setting minimum standards, which undoubtedly indicate acceptable and unacceptable behaviour, ethical cultures and behaviours are about much more and it's the responsibility of every individual to play their part in encouraging the right behaviours and practices, and calling out the wrong.

## BEING TRUSTWORTHY

For many, they may feel somewhat powerless within the system or at



*To be trustworthy may just be the greatest contribution an individual can make to creating a more ethical sector and trusted business environment.*

a loss as to how to change it. They might hope for a fairer, more just society, for better and more ethical practices, but where to start? Perhaps the best place is with that which we can control – our own decisions and practices.

To be trustworthy may just be the greatest contribution an individual can make to creating a more ethical sector and trusted business environment.

In the business context, being trustworthy will involve reflecting on the following three points:

## 1 YOUR OWN PRINCIPLES AND VALUES

What do you stand for? Are you consistent in your positioning (or can you explain a change of mind)?

## 2 SKILLS AND EXPERTISE

Are you qualified to deliver what you are promising? Can people rely on you to deliver, according to what's agreed?

## 3 CARE

Are you thinking about others, as well as yourself? Have you thought of all the people affected by your decisions? Do you feel good about what you do?

## WHAT LIES AHEAD?

Increasingly, we're seeing people, particularly the young and women, choose products and services – ranging from their clothes to their financial planners – based on ethics and trust. They're looking for a match with their own values and beliefs.

So, as financial planners, it would be wise to try to understand them and to ask questions. But first, one should start with oneself, because now more than ever, staying in business is a matter of trust.

---

*Clare Payne is an EY Fellow for Trust and Ethics, and an Honorary Fellow of The University of Melbourne. Clare will be delivering a workshop session titled, 'Ethics in Finance', at the **FPA Professionals Congress** on Friday 23 November.*



Insight<sup>®</sup>





# POCKET ROCKET

**Finn Vicars** may only be 9.5 years old, but he is a passionate young man when it comes to the environment and building a better future for the next generation. He talks to **Jayson Forrest**.

The first thing that catches you when talking to Finn Vicars is just how articulate and considered his responses are to seemingly complex questions; the same questions most adults would stumble over. It's even more astonishing when you consider Finn is a 9.5-year-old, fourth grade primary school student, who is studying accelerated science at an eighth grade level.

With an IQ of over 130, young Finn is considered a child prodigy, but don't make the mistake of calling him that. It's a term that doesn't sit well with this young man.

"I don't class myself as a child prodigy; I class myself as 'me'. And while I accept that some people might call me a child prodigy, as far as I'm concerned, I'm just 'me'," Finn says.

But what the student from St Columba Anglican School does class himself as is a future change maker, focused on using science to improve the world for the next generation.

Finn will feature in the opening plenary session at this year's FPA Professionals Congress, where he will talk about the importance of 'trusting yourself'. It will also be an opportunity for this confident young student to fire a couple of shots across the bow of Future Fund chair and former Treasurer, Peter Costello, who will also be appearing in the same opening plenary.

It's an opportunity that doesn't phase Finn, because these days, when it comes to talking to politicians, he's a bit of an old hand. In fact, young Finn is somewhat of a veteran when it comes to talking to Government and academia, having already met with former Prime Minister, Malcolm

Turnbull, where he presented the PM with his own draft document – *Living Off The Land Act*.

According to Finn, this Act outlines the key principles of water harvesting, renewable energy, the use of sewerage tanks and growing your own food to help reduce your carbon footprint.

"Australia is too dependent on fossil fuels, like coal, when there are much cleaner and renewable alternatives available. It's time we make the transition to renewable energy. So, I believe we need to impose tighter conditions on fossil fuel companies to help with this transition across to greener and sustainable energy," Finn says.

"Although globally, Australia isn't a very big carbon omissions producer, we can become a leader in reducing our collective carbon footprint - for the sake of the planet."

## MAKING CHILD PRODIGIES

It's this passionate belief, along with his exceptional academic record, that saw this Lorne resident scouted by the ABC to appear on a television series called, *Making Child Prodigies*.

According to the ABC, there are less than 4,000 exceptionally skilled kids in Australia, and only about 100 who could be considered prodigies. And Finn is one of them. The television series, which aired earlier this year, provided an intimate look at the day-to-day lives of five young Australian prodigies and their families.

Not only did Finn use this program as an opportunity to discuss his environmental concerns and solutions with the Prime Minister, but the series also explored Finn's

fascination and knowledge of science. This included Finn's design of a rocket, which was built into a workable prototype and successfully launched from his parent's property.

But this budding scientist's achievements don't end there. He has also designed solar panels and an electric motor. It's something he is particularly proud of: "I'm trying to raise the efficiency of solar panels by about 50 to 60 per cent."

And while Finn enjoyed his time on the program, he jokes that he hasn't let the notoriety get to his head!

"The filming usually took place on the weekend. But sometimes it was a bit of a drag, having the production crew come up every second weekend over the filming period. But actually, the whole experience was great."

## FUTURE CHANGE

It's hard not to be swayed by Finn's passion for the environment and the role science can play in creating a more sustainable future. He ardently believes that the world can be improved through science, the economy and care for the environment.

But first, he believes it is absolutely essential that the next generation – his generation – recognises today's problems, in order to help solve these issues.

"For my generation, it's about fixing our predecessors' mistakes and making sure we learn from those mistakes," he says.

It's a sound approach from someone with an old head on young shoulders.

And what about money? What does

*Continued overleaf*



## Leading line up

This year's Congress will open with a keynote session featuring former Treasurer, **Peter Costello**, bestselling author, **Stephen M. R. Covey**, and future change maker, **Finn Vicars**. All three will explore the topic of 'trust' from different perspectives.

Stephen will share insights from his global best seller, *The Speed of Trust*, while Peter will examine what the future of the economy might look like. The session will also introduce delegates to a young future leader, Finn Vicars, who will open your mind to the potential of the future and particularly what this means for the next generation.

Day two will feature a keynote presentation from US-based financial services expert and author, **Mitch Anthony**. Mitch will discuss the meaningful role planners play in their client's life. He calls it 'Life-Centred Planning': a discovery process that focuses on who the client is, instead of their assets.

And the closing keynote session on Friday will feature **Alex Sheen**, who's commitment to the betterment of humanity is inspiring millions of people. Through his social movement, *because I said I would*, Alex's 'promise cards' are shared virally around the world, as a sign of the commitment by individuals to making a difference to others and themselves.

Joining Alex will be **Michael Crossland**, who will share his discovery that success in life has little to do with what we gain or take, but what we give back to it.

For more information on this year's FPA Professionals Congress, go to [fpacongress.com.au](http://fpacongress.com.au)



the future of money look like for the next generation?

"I believe there will still be money in the future. However, I also think crypto-currencies will increasingly become influential as a source of money, but I don't believe they will ever replace Government controlled currencies. That said, in time, I believe most Government controlled currencies will become digitised."

He also suggests that the future of investing in crypto-currencies could be the next "big thing", but qualifies his statement by saying: "It's still a very unstable type of currency, and not likely to be attractive to those investors who are risk averse."

With such strong views on currency, it's hardly surprising that Finn also has some robust

opinions when it comes to the economy.

"I also believe that Governments should stringently limit how much money is printed in the future, to help reduce inflationary pressures on the economy, which in theory, will help with the unemployment rate," he says. "We see this with the Phillips curve."

Finn is referring to the single-equation econometric model, that describes a historical inverse relationship between rates of unemployment and corresponding rates of rises in wages that result within an economy.

"But if we place heavy taxes on anyone who keeps more money than is reasonably required, and we reinvest this

money in services, such as public health and essential infrastructure, our economy could do very well as a result. It would also help in



*For my generation, it's about fixing our predecessors' mistakes and making sure we learn from those mistakes.*

– Finn Vicars



revaluing our currency, which could make us a major player in the global market.”

Simplistic, perhaps. Reasonable, undoubtedly. And Finn doesn't discount challenging the former Treasurer, Peter Costello, with some of his views on economics during their Congress plenary session on Wednesday 21 November.

“Maybe my theory is something we shouldn't do. Maybe we should leave the economy the way it is. But I still believe it's a theory that shouldn't be discounted,” he says.

## TRUSTING YOURSELF

In trying to correct some past societal wrongs through initiatives like his *Living Off The Land Act* and his work with solar panels, as a future change maker, Finn isn't backward in offering some advice to the current crop of politicians and decision-makers.



“When it comes to saving this planet of ours, fixing up past mistakes is fairly simple,” he says.

“Just do what you know is right. Stop ignoring the scientific facts. There's no point in blatantly denying climate change, in order to make a profit or for political expediency, when it's happening all around us.

“And what's more, it's kind of unfair to leave it to my generation to fix!”

It's sage advice from someone so young.

*Finn Vicars is a keynote speaker at the 2018 FPA Professionals Congress in Sydney (21-23 November). He will be speaking in the first keynote session on Wednesday 21 November.*

*For more information on the Congress program or to register your attendance, go to: [fpacongress.com.au](http://fpacongress.com.au)*

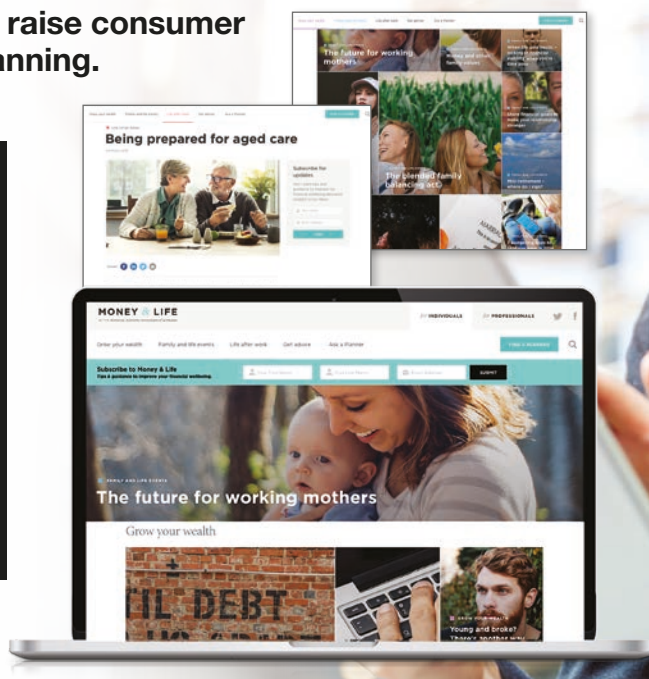
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# CONGRESS WORKSHOP PROGRAM

This year's Congress program features a range of inspiring speakers and industry professionals, who will be presenting across 24 workshops in four dedicated workshop streams — **Evolve**, **Engage**, **Grow** and **Inspire**. Practitioners can earn up to 15 CPD hours by attending the Congress. The following is a preview of the sessions.

EVOLVE		ENGAGE	
<i>Technical capability and critical thinking in financial planning specialty areas.</i>		<i>Engaging and developing your clients and staff.</i>	
<b>Meet the Regulators: FASEA and the TPB</b>	An in-depth look at the new FASEA standards, covering education, code of ethics, exam, CPD and the professional year.	<b>Managing values</b>	Today, more employees want to work for organisations that have a purpose beyond profits. This session looks at the forces driving and hindering organisations from moving in step with changing societal expectations of corporate leadership.
<b>Estate planning: Making sure no one gets left behind</b>	Peter Townsend will lead a workshop on scoping advice and engaging a specialist, successfully integrating intergenerational planning in your practice, and producing intergenerational strategies through SMSFs and trust structures.	<b>Winning battles, losing wars</b>	Sometimes it's our effectiveness in doing the small things that make us lose sight of the bigger values we're working towards. This session will look at the perverse connections between the immediate and the strategic, and how we can be better individuals by keeping an eye on the big picture, too.
<b>Managing conflict of interests</b>	This workshop will explore separating product from advice and what ASIC considers a reasonable fee structure to on-board and service a client.	<b>Planners are perfectly positioned to change the world</b>	Carl Richards CFP® wants to show planners how they can change the world, one conversation at a time. Changing the world is about building leadership, building trust and building influence at scale. By putting these three elements together, planners are ideally positioned to change the world.
<b>Not all is super: Developing non super strategies</b>	The opportunity to use super as the exclusive tax-effective structure to fund clients' retirement income needs has been eroded since the 1 July 2017 changes. This workshop will look at alternatives to the super structure to create wealth for your clients.	<b>Client engagement and you</b>	Vicki Writer explains the intricacies of human thought and behaviour. You will learn the secrets of how to communicate more effectively with your clients, your staff and your peers; enabling you to transform the results you produce.
<b>Aged care: Blessing or burden?</b>	Hear about the range of residential options available to aged care clients and the need to consider these as part of the planning process, while a lawyer and aged care specialist planner will discuss an elder abuse case study.	<b>Get MatchFit!</b>	Matchfit means being ready to play and compete at a consistently high level in sport. In the workplace, being matchfit means being able to effectively negate the biological decline of the body and brain post age 40, and continue performing at your best. Andrew May explains how to be matchfit.
<b>Navigating risk advice for your SME clients</b>	Planners can add real value in providing SME owners with succession solutions. This workshop will demonstrate how to assess the insurance needs of your clients and how to work with experts to secure appropriate buy/sell arrangements.	<b>Win trust and influence</b>	In a time of unprecedented change, uncertainty and scrutiny, the spotlight has firmly turned on the financial planning profession. Anthony Laye explains how planners can regain the trust of consumers and help them build better financial futures.



**For more information, visit [fpacongress.com.au](http://fpacongress.com.au)**

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

## GROW

*These sessions will help improve the operational side of your practice.*

<b>Goals Based Advice: A movement or financial planning?</b>	This workshop will focus on how to build client-centric advice, including behavioural coaching and building trust.
<b>Fintech: Designing your business future</b>	This workshop will explore some of the latest fintech offerings and how they can be used in designing and developing a more efficient and profitable business.
<b>Building best practice advice</b>	Better understand your compliance obligations and best interest duties, develop evidence documented processes for your file notes, and prepare compliant and engaging SOAs.
<b>Succession planning: Buy, scale or sell?</b>	This workshop will provide guidance in re-evaluating your business model, due diligence when buying or selling, best practice when scaling your business, and funding options.
<b>AFSL: The reality of going it alone</b>	Better understand the AFSL process, a Responsible Manager's compliance obligations, the pros and cons of running your own AFSL, and consider ASIC's views on individual licensing.
<b>Cultivate your culture and connect with your people</b>	This session will explore leadership, flexible work practices, management of business risks, and the role of positive team engagement.

## INSPIRE

*Get motivated and nurture your mind and body.*

<b>Change as a positive springboard to financial success</b>	Why are we scared to dream big? This session will examine the psychology of fear, and how what we think scares us, is really the rocket fuel to a brighter future.
<b>Dear body, mindful eating</b>	Mindfulness practices are powerful in reducing our stress. In this workshop, you are going to learn about mindfulness practices that can support you finding and keeping the calm in the midst of chaos.
<b>Era of empathy</b>	Central to any successful business is empathy. This workshop will help you develop the processes to enable you to build the relationships needed to be ethical, authentic and successful.
<b>Strategy in uncertain times</b>	Build resilience through scenario thinking, which recognises that businesses face multiple futures and the need to focus on building capabilities to adapt to these futures.
<b>Mindfulness and stress busting</b>	Learn about the neuroscience behind stress and anxiety, and walk away with four mindfulness tools: journaling, cognitive-behaviour therapy, growth mindset, and calming anxiety meditation.
<b>Ethics in Finance</b>	Clare Payne puts an ethical lens across finance, including the practices that can enhance trust and meet changing societal expectations.

## PROGRAM OVERVIEW

Time	Wednesday, 21 November
1:00pm-4:00pm	FPA Professional Practice workshop
1:00pm-4:00pm	Paraplanner workshop
4:15pm-5:55pm	Opening Keynote Session and FPA Awards presentation
6:00pm	<b>Welcome reception and Expo opening</b>
Time	Thursday, 22 November
7:30am	Networking breakfast
9:00am	Keynote Session
10:30am	<b>Workshop 1:</b> Evolve / Engage / Grow / Inspire
11:30am	Morning tea
12:10pm	<b>Workshop 2:</b> Evolve / Engage / Grow / Inspire
1:10pm	Lunch
2:10pm	<b>Workshop 3:</b> Evolve / Engage / Grow / Inspire
3:40pm	Afternoon Tea
4:10pm	<b>Workshop 4:</b> Evolve / Engage / Grow / Inspire
7:00pm	Future2 Celebration
Time	Friday, 23 November
7:30am	Women in Financial Planning breakfast / Networking breakfast
9:00am	<b>Workshop 5:</b> Evolve / Engage / Grow / Inspire
10:15am	<b>Workshop 6:</b> Evolve / Engage / Grow / Inspire
11:30am	Brunch
12:30pm	Closing Keynote Session
2:00pm	Congress close

*\* Program subject to changes. Times and events may vary slightly. Earn up to 15 CPD hours.*

## WELLNESS

# HEALTHY, WEALTHY AND WISE

When it comes to improving the physical and emotional wellbeing of clients, the team at the Announcer Group lead by example.

**Tony Lu CFP<sup>®</sup>** talks to **Jayson Forrest** about the importance of promoting good health as part of the financial planning process.

There are five guiding principles that underpin the philosophy of the Announcer Group: Dream it, Organise it, Protect it, Grow it, Enjoy it. And they're not hard to miss, boldly emblazoned on the meeting walls of the Sydney-based practice.

But principles alone don't make a successful business. You've got to live and aspire to them. And that's one of the first things that hits you when you walk into the business. It's clearly evident that Announcer places great stock in community involvement and team building, with framed staff sports jerseys adorning the walls of the office.

It's clearly evident that the business – comprising a fully integrated service covering financial planning, property, mortgage lending, tax and accounting, business advisory, and legal – is committed to building a culture based on teamwork, with many of its health and wellbeing initiatives driven by the managing director and founder, Andrew Rocks.

"It's part of our DNA," says Tony Lu CFP<sup>®</sup> – a senior adviser at the Announcer Group. "Andrew is passionate about the health and wellbeing of staff and clients, which is all based around clear shared values."

As part of the practice's approach to 'living' its philosophy, staff at Announcer enjoy

a flexible workplace, which includes the option of taking a two-hour lunch break to work on their own personal fitness or participate in one of the practice's team sports, that includes soccer or volleyball.

"We even have an arrangement with Red Nose – Saving Little Lives, whereby for each goal scored by our team in soccer, \$100 is donated to the charity," Tony says.

This approach to the physical fitness and health of staff, also underscores the importance Announcer places on the physical and emotional wellbeing of its clients; something Tony is acutely aware of.

"As a planner, helping people manage their finances and build their wealth, is only part of the equation. We're role models to our clients, so we need to lead by example," says the 36-year-old.

"I explain to clients that there's no point in building their wealth if they don't take care of their health. At Announcer, that's something we take very seriously, and it shows through in our own personal commitment to health and wellbeing."

## A PROACTIVE APPROACH TO HEALTH AND WELLNESS

As part of the practice's holistic approach to planning is a range of health and wellness programs that clients can participate in. This includes first aid



**Tony Lu CFP<sup>®</sup>**

**Position:** Senior Adviser

**Practice:** Announcer Group

**Licensee:** Infocus Securities

**Years as a planner:** 13 years





*Tony Lu CFP® encourages clients, like Louisa Cheng, to incorporate health and wellness into the financial planning process.*



*Our jobs, as planners,  
is to coach and mentor*

courses and a complimentary DEXA scan for all new clients. The DEXA scan provides clients with an individualised body composition reading, that includes measurement of weight, bone density, muscle mass and body fat.

"This scan makes clients more aware of their overall health and fitness," Tony says. "Once a client has completed one of these assessments, they meet with a consultant who discusses their lifestyle goals and objectives. An exercise and nutrition program is then mapped out to help the individual achieve those goals."

Tony says the DEXA scans are something that can be built on. He has already done six scans, which he says is a good way to keep him focused on his health objectives.

The practice also actively promotes other wellness programs, like the AIA Vitality program, as a means of encouraging both clients and staff to take a more proactive interest in their personal health and wellbeing – and being rewarded for doing so.

Tony admits to being an active participant in the AIA Vitality program. He says programs, like AIA Vitality, are an ideal opportunity for planners to engage with clients on topics other than portfolio performance and investment markets, enabling them to build much deeper relationships with their clients.

"One of the first things I ask clients when I catch up with them is how many points have they accrued from

*our clients. We need to lead by example. You can't advise your clients to get their health in order, if you don't get your own health in order and believe in what you're saying.*

*– Tony Lu*

using the program. It's a great way to open up a conversation," Tony says. "We love encouraging our clients to focus on their health and emotional wellbeing, and we use this program to have open and honest conversations with them. Our clients really appreciate this."

Tony believes the DEXA scans and the AIA Vitality program are great examples of alternative ways planners can engage with clients, particularly when discussing health issues with them, while introducing insurance into the conversation.

### LONGEVITY RISK

However, while Tony concedes that it may sound strange for a planner to talk to a client about their health and wellbeing, which traditionally has been the domain of a GP or

a nutritionist, he believes it to be an essential part of the financial planning process.

It's a view that Tony's client, Louisa Cheng, agrees with. "Actually, I don't find it strange at all," she says. "As a client, I know Announcer has a strong focus on fitness and health, which is something I like. I appreciate the emphasis Tony is placing on my personal health. I realise now that in order for my husband and I to enjoy our wealth in our later years, we have to be fit and healthy."

At 41 years of age, and with two young children aged six and four, Louisa is profoundly aware of the importance of remaining fit and active. It's that understanding that underpins Tony's approach to Louisa's wealth creation plan.

"We're all living longer these days, so it's not surprising we're becoming more aware of our health. So, for me, longevity means I need to start thinking about how I'm going to financially support myself, and my children, while living an active lifestyle for longer," Louisa says.

"And as a parent with young children, you have to be fit and healthy just to keep up with them," she jokes. "But as I look towards the future, I think about my parents' generation. They've worked hard all their lives but they haven't lived the healthiest lifestyle. And now that they're retired, their bodies aren't able to enjoy their retirement."

*Continued overleaf*



"I don't want to be in that position. I don't just want to be able to afford my lifestyle; I want to enjoy life with my kids, which includes travel and hiking the Inca trail to Machu Picchu, and not be restricted by preventable health issues."

## IT'S ANOTHER WAY TO START A CONVERSATION

Tony sees value in health and wellbeing initiatives, like the AIA Vitality program, as a means of introducing the topic of insurance into the client conversation during the planning process.

"When you incentivise people to take greater care of their health and wellbeing, through programs that reward them with reduced insurance premiums, flight discounts, movie tickets and shopping vouchers, it really improves the engagement of clients," Tony says.

"Let's face it, insurance premiums are something nobody wants to pay. The only time you want to pay a premium is the day before you make a claim! But receiving some of these rewards from programs like AIA Vitality, can be financially significant. Not only are clients protecting their own financial needs through the policy, they can also reduce the cost of their premiums and receive a variety of other rewards, which all help to reduce the overall cost to clients.

"It's a much easier type of conversation to have with your clients, while introducing them to insurance, instead of just talking through the cost of the premiums."

It's a view not lost on Louisa.

"I actually found the AIA Vitality program to be very beneficial," she says. "From an insurance perspective, we are paying a lower premium. But importantly, it has encouraged me to stay healthy and remain focused on my fitness. And as an added bonus, by participating in the program, I can watch my points accumulate and receive my vouchers, which is a wonderful reward and incentive for me."

Last year, Louisa and her husband were able to accumulate \$300 worth



*For me, longevity means I need to start thinking about how I'm going to financially support myself, and my children, while living an active lifestyle for longer.*

– Louisa Cheng

of shopping vouchers, which paid for their children's Christmas presents, while also receiving a substantial reduction off their holiday flights to Thailand.

"It's not a bad way of reaping the rewards for looking after my health," says Louisa. "I'm constantly on my app, checking that I've reached my designated points tally, to enable me to get my shopping voucher for that week. To be able to take \$5 off your weekly shopping bill is great. It all adds up over the course of a year."

## A SUCCESSFUL APPROACH

When measuring the success of Announcer's approach to health and wellness, Tony says the results speak for themselves.

"The team at Announcer has embraced the health and wellbeing program. In addition to the various sorting competitions we participate

in, we also have a 'steps' competition, which creates healthy internal competition," he says.

"And from a client relationship perspective, our approach to health and wellness is enabling us to have much deeper conversations with our clients."

As for Louisa, she is typical of most Australians - she has the desire to live a healthy lifestyle but often the motivation is missing. That's why she is an ardent believer in signing up to apps or programs that can assist her with staying the course.

"If you need something to motivate you, then do your research and find that app or program that will make you get up and get moving. They really do work in getting you off the couch and getting your heart pumping. I encourage people to find out what motivates them to live a more active and healthier lifestyle, and then go for it!"

Tony agrees: "Health and wellness programs are another tool that practitioners can use to engage with their clients and get them motivated. It's also important that planners lead by example and be a role model to their clients."

He says it's one thing to say something, but it's another thing to actually do it.

"Our jobs, as planners, is to coach and mentor our clients. We need to lead by example. You can't advise your clients to get their health in order, if you don't get your own health in order and believe in what you're saying. It just doesn't work.

"So, why not use health and wellness programs to build deeper conversations and relationships with clients? It's an opportunity to build a like-minded community, which only enhances the client-planner relationship," Tony says.

"And as I tell my clients: There's no point being wealthy if you're not healthy. That's something you can't put a price on."





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## STRATEGIC THINKING

# STRATEGY IN UNCERTAIN TIMES

**Dr Norman Chorn** provides five approaches to thinking strategically in times of uncertainty.

The financial planning sector might feel like it's experiencing particularly uncertain times at present with changing regulation, new educational requirements and a general mistrust of financial professionals caused by the revelations from the Royal Commission.



*Dr Norman Chorn*

However, similar challenges are being experienced by most in business today. Most of the markets in which we operate are complex, with multiple influences, such as customers, competitors, regulators, technology, unions and the like. This continuous interplay between these forces produces the unpredictability and uncertainty to which we have become accustomed.

The critical point is that conventional planning is no longer effective in these environments. Why? Because conventional planning begins with a set of assumptions, sets an objective, and then develops a series of steps and milestones to achieve that objective. All of this is based on a prediction of particular future.

However, we know that the uncertainty in markets actually gives rise to a series of 'alternative futures'. As the various influences interact in multiple ways, the markets behave in an unpredictable manner. And the way we set strategy has to adjust accordingly.

### WHAT IS STRATEGY IN UNCERTAINTY?

Setting strategy in complex, uncertain markets is not about predicting the future. Instead, it is about recognising that we face multiple futures, and we need

to understand the challenges in each.

Setting strategy in uncertain conditions is about developing the required capabilities to operate across a range of futures. Ultimately, resilience may be interpreted as this ability to operate

across a wide range of futures. This requires an understanding of the capabilities required for success in each of the different futures.

How do we do this? We need to begin thinking differently about strategy and planning.

### FIVE APPROACHES TO 'STRATEGIC THINKING' IN UNCERTAIN TIMES

I have summarised five key factors to start thinking strategically in uncertain times. While they appear quite simple, they require a very different mindset to work successfully.

#### 1 IDENTIFY THE COMMON CAPABILITIES REQUIRED ACROSS THE DIFFERENT FUTURES

Once we have identified the alternative futures we face, we define the capabilities needed for success in each.

And then, through a process of back-casting, we understand which capabilities we need to begin building now.

As we back-cast, we often identify that a reasonable proportion of the capabilities are common to all the futures (between 25-40 per cent, depending on the volatility of the sector). Investing in these common capabilities now are what we know as 'no-regret bets', i.e. they are capabilities that address much of the future scenarios





we have envisaged, and have significantly lower risk of becoming obsolete or useless in the future.

Since these common capabilities will only address some of the requirements for the future, we need to continuously refine and enhance our strategy as the future unfolds. But they are a good place to start.

## 2 RECOGNISE THAT STRATEGY IS MORE LIKE POKER THAN CHESS

Because we are considering an uncertain future, much of the data we are able to access is incomplete or uncertain. This is unlike chess – a computational game – where every move can be calculated and optimised according to the situation on the chessboard.

Poker, on the other hand, depends on your hand, and what you guess about the opponent's hand. There is much bluffing and posturing involved, all contributing to the lack of reliability in the data you use to make your decisions. This is a more reasonable analogy for strategy in an uncertain future.

If we accept that, we should begin to account for the lack of reliability in the data we use as inputs. By weighting the reliability or probability of the data's accuracy, we can begin to manage the risk of our future decisions.

It stands to reason that the value of a forecast or projections depends greatly on how much you trust the source of that information. Make sure you factor that into your calculations and decision-making.

## 3 AVOID THE PRACTICE OF 'RESULTING'

In an uncertain environment, the result of a strategy is a combination of the decision quality and luck.

The obvious implication is that we cannot judge the quality of the strategy and decisions by only considering the result. This is termed 'resulting', and may well obscure the quality of the process – in both good and bad decisions.

So, the key to good strategy and planning in an uncertain environment is the process. This is the only aspect we can control, and our efforts should focus on using the appropriate methodology and planning methods.

## 4 OPTIMISE YOUR VANTAGE POINT

In any strategy or planning, the assessment of the current situation is vital. Three things to note here:

- View the situation from multiple perspectives: 'What you see of the mountain depends on where you stand.' Place yourself in the position of the different stakeholders to gain an overall picture of the situation.
- Reject binary solutions. Where you find that only two options present themselves, force yourself to generate further alternatives – even if they appear unrealistic to begin with. This process will increase the chances of surfacing additional creative options.
- Adopt the 'mentalist' position. Mentalists will view the situation as if they were reading a novel or watching a movie. In this way, they develop an overall 'systems view' and identify the major characters in the plot. By understanding the motivations and drivers of the different characters, breakthrough solutions can be more easily identified. It also allows for a more objective (less judgemental) approach to the challenge.

## 5 USE THE POWER OF 'ACCRETION' TO BUILD STRATEGIC INSIGHT

Strategic insight is the ability to find breakthrough solutions for complex problems – where no obvious answers exist. It is developed through accretion – the continuous collection of ideas as you read, talk to people and experience new situations.

Accretion has its origins in astronomy, where it's used to describe the formation of stellar systems. The gravity of a heavy

molecule attracts smaller molecules, and the smaller molecules stick to the heavier one. As the heavier molecule becomes even heavier, it continues to attract smaller objects. The process continues until you have a large object in space with significant gravitational pull.

This is a useful way to explain the creation of strategic insights through the collection of smaller ideas, and how a breakthrough change in thinking takes place.

How does this occur? As you consider a complex challenge (such as planning in uncertainty), you gather pieces of information and a series of ideas. As these ideas accumulate, the smaller ideas stick to the larger ones until a 'tipping point' is reached. This causes an avalanche that changes your whole thought pattern and creates the breakthrough solution.

This avalanche is unpredictable, much like the collapse of a sandpile to which you add grains of sand. But when it comes, you must be ready to make room for it and prepare to change your thinking. This is how breakthrough thinking and insights are created.

So, promote the growth of your 'ideas garden' by continuing to collect new information and different ideas – even contradictory ones. The different ideas will eventually resolve, or you might 'prune' your garden by eliminating some ideas that eventually make little sense.

Either way, this process of feeding and tending your ideas garden is one of the pre-conditions necessary for the development of strategic insight in complex and uncertain conditions.

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*Dr Norman Chorn is the Director of The BrainLink Group.*

*He will be delivering a workshop session titled, 'Strategy in Uncertain Times', at the FPA Professionals Congress on Thursday 22 November. For more information, go to [fpacongress.com.au](http://fpacongress.com.au)*

# ONE STEP AT A TIME

**Deanne Sheridan CFP®** isn't underestimating the physicality and endurance required to hike 45km through the testing terrain of the Blue Mountains, but she is confident her singing will at least scare away the snakes and spiders. Deanne talks to **Money & Life** about her motivation for participating in this year's **Future2 Hiking Challenge**.

## WHY DID YOU DECIDE TO PARTICIPATE IN THIS YEAR'S FUTURE2 HIKING CHALLENGE?

I have always loved the idea of the annual Future2 Wheel Classic bike ride, but I'm not a very confident or fast rider! Then Future2 introduced other physical challenges, including the hike, and I knew I had to get involved.

The Future2 Blue Mountains Hiking Challenge is being held in my home state this year, in conjunction with the FPA Professionals Congress being held in Sydney, so there was really no excuse not to participate.

With the support of my employer, SWA Financial Planning, I was able to 'encourage' another colleague, Mathew Camkin, to join in the challenge, too.

## WHAT DO FUNDRAISING INITIATIVES, LIKE THE FUTURE2 HIKING CHALLENGE, MEAN TO YOU?

These initiatives are so important, both professionally and personally. In my working life, these initiatives are such a great reminder of why I became a financial planner in the first place – the constant desire to help people.

I have been able to spend time in the community and connect with services in my local area that assist financially disadvantaged young people. These services, and those like them throughout Australia, will

directly benefit from the Future2 grants, and it is such a satisfying feeling knowing you have helped, even in a small way.

Personally, I have been spreading the word about my involvement this year in the Hiking Challenge, while raising more awareness in the community about the work the Future2 Foundation does. I am so very grateful to family and friends who are supporting my efforts via donations.

## WHAT DO YOU EXPECT TO BE THE MOST CHALLENGING ASPECT OF HIKING FOR TWO DAYS?

Without doubt, the most challenging aspect is going to be the distance and the incline!

Hiking 45kms of bush tracks over two days will be the most physical thing I have ever done. Hopefully by November, the body will be ready and it will be more of a mind game – to keep going, stay focused and remember why I'm there.

I am looking forward to the physical and mental challenges this hike will bring. I'm hoping the weather will be kind to us and my singing will scare away any spiders or snakes!

## HOW ARE YOU PREPARING/TRAINING FOR THE 45KM HIKE?

I'm working on my fitness by walking, running and doing strength training. Thankfully, the Wollongong escarpment has some great trails that we have been using for practice hikes.

## HOW IS YOUR FUNDRAISING TARGET OF \$1,200 PROGRESSING?

I'm making great progress. I have already raised over 25 per cent of my target, but more support would be greatly appreciated.

If you are reading this, but can't participate in a Future2 Challenge yourself, please do the next best thing and donate to someone who is.



*"If you are reading this, but can't participate in a Future2 Challenge yourself, please do the next best thing and donate to someone who is." – Deanne Sheridan*





*“With the support of my employer, SWA Financial Planning, I was able to ‘encourage’ another colleague, Mathew Camkin, to join in the challenge, too.”*

*– Deanne Sheridan*

### WHAT DO YOU HOPE TO ACHIEVE BY PARTICIPATING IN THE FUTURE2 HIKING CHALLENGE?

Personally, I hope to get to the end of the hike intact and under my own steam. I know there will be times when I don't think I can keep going, but I am determined to give it my best shot.

I hope my participation will also raise awareness in my local area of the Future2 Foundation and the great work it does.



Ready to take on the Blue Mountains: Mathew Camkin AFP® and Deanne Sheridan CFP®.

## Choice of two challenges

The Future2 Foundation is calling for hiking and cycling enthusiasts to join them in one of two challenges prior to the start of the 2018 FPA Professionals Congress in Sydney (21-23 November).

The first challenge is the two-day **45km Future2 Blue Mountains Hiking Challenge**. Participants will set off on November 19, where they will experience the challenging terrain and beauty of the Six Foot Track and Megalong Valley.

The second challenge is the annual **Future2 Wheel Classic**. Now in its ninth year, the ride will start on 14 November at the steps of Parliament House in Canberra and finish in Sydney on 21 November.

The eight day route covers a distance of 993km, and will take in the scenic Snowy Mountains region, with overnight stops in Cooma and Jindabyne before winding down the South Coast to Merimbula.

Riders will then pedal north through Narooma, Batemans Bay,

Berry and Wollongong, before crossing the finish line at ICC Sydney in time for the 2018 FPA Professionals Congress. Riders in the Future2 Wheel Classic can also opt for a shorter four-day ride.

By signing up to the Wheel Classic, riders will undertake to raise at least \$1,500 for the **Future2 Make the Difference! Grant program**, while the hikers will have a fundraising target of \$1,200.

**Future2 is grateful for the support of the following Future2 Challenge sponsors: MLC, Netwealth, IRESS and Pickles.**

**For more information or to register your interest, visit [www.future2foundation.org.au](http://www.future2foundation.org.au) or email [events@fpa.com.au](mailto:events@fpa.com.au)**

# YARNING CIRCLE EMPOWERMENT

As a resident of Far North Queensland, **Ian Byrne CFP®** is impressed with the work Balkanu Cape York Development Corporation is doing with disenfranchised indigenous youth of Cape York.

Ian Byrne CFP® was first introduced to the work of the Balkanu Cape York Development Corporation (BCYD) through one of his long-term clients, Mabellina Wong.

At the time, Mabellina was a project manager at BCYD – a not-for-profit organisation supporting indigenous people and communities living in Cape York.

“I was impressed with the work BCYD was doing to address the issues around economic disadvantage and poverty that was affecting indigenous communities of Cape York,” Ian says. “By working with other indigenous corporations and councils in Cape York, BCYD has been able to facilitate successful training for people living in these communities, especially for the younger people.”

According to Ian, these training programs are centred around improving the overall conditions of these communities, as well as health, education, employment and other economic development opportunities to assist the Aboriginal communities of Cape York.

“Coming from a regional centre, I see first hand the difference and benefits that providing employment opportunities in these remote communities bring. Assisting the younger generation to think differently around their own future and opportunities, and aspiring to achieve more than perhaps they had previously thought possible, can only be a positive change,” he says.

GRANT RECIPIENT:  
**Balkanu Cape  
York Development  
Corporation**

GRANT AMOUNT:  
**\$10,000**

ENDORSED BY:  
**Ian Byrne  
CFP®**

FPA CHAPTER:  
**Cairns**



## SELF-DETERMINATION

For over 20 years, the BCYD has been assisting indigenous people and communities to achieve self-determination through initiatives and projects that enable the people of Cape York to live better lives.

“Our core competency at BCYD is successful project facilitation, implementation and management of programs,” says Mabellina Wong, who at the time of the grant application, was a project manager at BCYD.

“We believe our youth are the leaders of tomorrow and the importance of motivating them to move forward in their lives, even if they have ‘fallen’ along the tracks, is important to us.”

BCYD also works in close collaboration with other organisations within the region to deliver programs tailored for indigenous people. These programs

include business development, natural resources management, education and training workshops, cultural heritage programs, and wellbeing and welfare programs.

## THE YEEP PROGRAM

The Future2 grant judges were impressed with the work BCYD is doing with the indigenous communities of Cape York Peninsula and awarded a \$10,000 grant for its Youth Empowerment Employment Program (YEEP).

According to Mabellina, the YEEP program has been designed to improve the mindset and confidence of disenfranchised youth by taking them to the pastoral outstation of Kulpa (Coen, Cape York Peninsula). At Kulpa, the youth spend a period of time doing daily chores in a caring and affirmative environment, with traditional elders acting as mentors.

“Our program targets young indigenous Australians, particularly those from disadvantaged backgrounds, by giving them the encouragement and inspiration needed to lead productive, secure and happy lives for themselves and their families,” Mabellina says.

“We concentrate on dysfunctional teenagers who, due to issues outside of their control, need considerable support and motivation to fight social problems, like drug addictions, abuse, violence, social-exclusion, depression and the like. Besides remedial programs, we also hold educational awareness workshops, leadership coaching,



skill development, and sporting and cultural activities, which are all helpful in building up their confidence and capability to handle life's issues."

Topping BCYD's priorities with the YEEP program is enabling youth to obtain gainful employment, either through education or entrepreneurship, so they can live independent and fulfilling lives.

Through 'yarning circles' (a dialogue circle, which is an important process within the Aboriginal culture), youth are encouraged to be responsible, respectful and to break bad habits.

"Youth are encouraged to learn life-skills, to work as a team, to develop leadership skills, and reconnect with their culture," Mabellina says.

Participants in the program also learn about cattle mustering, hunting, horse-riding, catching fish, caring for the environment and respecting the ecosystem.

"Kulpa is a safe, tranquil location, where elders work to inspire youth to build up their capacity in their chosen aspiration and achieve it through positive social action. The program is flexible and accommodating to the specific needs of disengaged youth," Mabellina says.

While the program started out working with 10-12 young people, more places will be offered as the program develops. In fact, BCYD expects to expand its facility to include school holiday programs, where students can also come to the outstation during their break to learn about life skills and be empowered to "become the leaders of tomorrow".

## ECONOMIC ADVANCEMENT

As a CFP® practitioner at Ibessa Strategic Financial Specialists, based in Cairns, Ian is acutely aware of the issues affecting the indigenous youth in Far North Queensland, including poverty and social isolation. But he acknowledges the work BCYD is doing to break this cycle of poverty and welfare dependency within indigenous communities, as well as in regional centres like Cairns.



Cairns Chapter Chair, Kris Robertson AFP® and Future2 grant endorser, Ian Byrne CFP®, with the Chair of Balkanu Cape York Development Corporation, Waubin Richard Aken.



*"We are all one family, so charitable acts, like the grant from the Future2 Foundation, benefit us all in the long run." –  
Waubin Richard Aken*

"I believe this \$10,000 grant will greatly assist today's disenfranchised and troubled youth. The YEEP program's use of traditional elders to take action and mentor indigenous young people in need, is helping them improve their lives and find their place in society," Ian says. "In that respect, this is an admirable and worthwhile endeavour.

"And while the YEEP program is still in its early days, it's a positive step to provide opportunities to young people to learn and develop their social awareness. We all know there are very real issues and specific problems these communities face. So, if we can assist the young to look differently at themselves and the world, and be more self-reliant and proud of their achievements, then perhaps a change can occur in their lifetime."

Not only is the YEEP program supporting indigenous youth,

who are troubled by destructive influences and behaviours, to build their self-esteem and help them live productive and meaningful lives, the program is also benefitting the families and communities of the program's participants.

"Among many other programs, BCYD is providing scholarships for disadvantaged youth of Cape York to advance their learning and education opportunities. This is enabling them to provide for themselves and their families, which is essential in the economic advancement of the indigenous people of Cape York," says Ian.

## WE ARE ALL ONE FAMILY

At the presentation of the Future2 grant cheque earlier this year, the chairman of BCYD, Waubin Richard Aken, spoke about his teachings to his own children and grandchildren, and how the indigenous communities of Cape York Peninsula are really an extended societal family.

"We are all one family, so charitable acts, like the grant from the Future2 Foundation, benefit us all in the long run," says Waubin Richard Aken.

## INSURANCE INSIDE SUPER POST REFORM

The introduction of the transfer balance cap (TBC) from 1 July 2017 has important implications for holding life insurance inside superannuation.

The TBC effectively restricts the amount of superannuation, including insurance proceeds, that can be received as a death benefit income stream to \$1.6 million and any excess must be cashed out of the superannuation system.

This has caused some financial planners to question whether large life insurance policies should continue to be held inside superannuation, as the payment of a death benefit income stream will effectively 'use up' the beneficiary's TBC, leaving little or no cap available for the beneficiary's retirement.

However, when compared to investing insurance proceeds outside of superannuation, the differences in taxation mean that death benefit income streams often provide a better outcome.

In addition, the strategy of taking lump sum commutations from a death benefit income stream may result in the beneficiary having access to at least a partial TBC at retirement.

### TRANSFER BALANCE CAP AND LIFE INSURANCE PROCEEDS INSIDE SUPER

Following the death of a client, proceeds from life insurance cover held inside superannuation form part of the deceased's superannuation account. This superannuation death benefit must then be cashed as a lump sum, one or more retirement phase income streams (only if it is paid to the deceased's spouse, minor child, a child who is severely disabled, adult child under 25 and a financial dependant, or interdependent relation), or a combination of both.

The ability to commence a death benefit income stream and retain insurance proceeds inside the tax-effective superannuation environment, has long been held as one of the advantages of holding insurance inside super.

Prior to the introduction of the TBC, there was no limit as to how much could be converted to a death benefit income stream. However, from 1 July 2017, the TBC has effectively put a \$1.6 million limit on the amount of insurance proceeds (along with other benefits) that can be transferred to commence a death benefit income stream. Any insurance proceeds exceeding the beneficiary's TBC must be cashed out as a lump sum death benefit.

As a result, advisers should review clients with life insurance inside super where the sum insured (together with the client's super balances) exceeds the TBC to ensure the compulsory cashing of the amount above the TBC is not going to adversely impact the client.

Furthermore, as the TBC is a lifetime cap, the commencement of a death benefit income stream will use up some or all of the beneficiary's TBC, reducing the amount available at retirement to commence further retirement phase income streams. In addition, if the death benefit income stream equaled or exceeded the TBC, the beneficiary will not be able to increase their unused TBC by future indexation.

For example, Gina is a 40-year-old who commenced a death benefit income stream for \$1.6 million due to the death of her husband. She is deemed to have fully exhausted her TBC and will not be able to increase her TBC by future indexation. When Gina reaches retirement age, she will not be able to transfer any superannuation benefits accumulated into tax exempt 'retirement phase' income streams.



**Yvonne Chu**

Colonial First State

This article is worth  
**0.5 CPD hours**

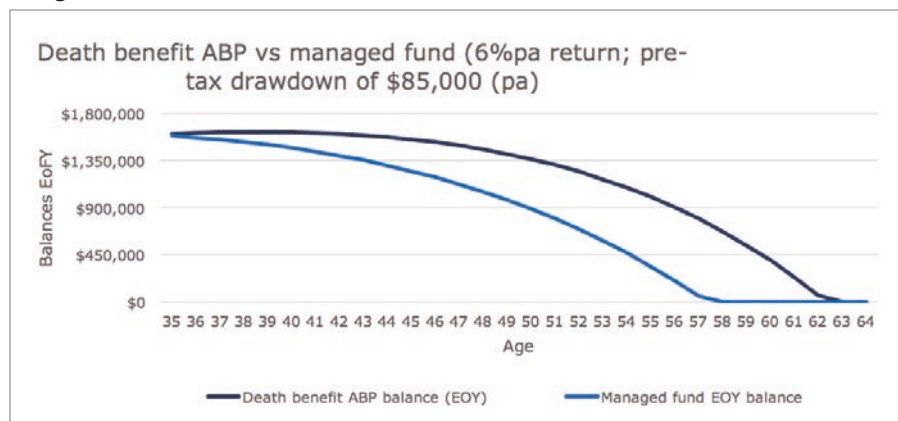
**FPA Dimension**  
Critical Thinking

**ASIC Knowledge Area**  
Superannuation

#### INCLUDES:

- Transfer Balance Cap
- Death benefit income stream
- Retirement phase income stream
- Account based pension



**Diagram 1**

This early exhaustion of her TBC has created the following conundrum: Should she take the death benefits (including insurance proceeds) as an income stream and use up her TBC, or should she cash out the death benefit and invest the proceeds outside of super in her personal name, allowing her to commence an income stream with her superannuation in retirement?

After modeling a number of scenarios, in most cases it appears that a beneficiary commencing a death benefit income stream and using up their TBC produces a better outcome. The main reason is that earnings are tax-exempt in the retirement phase and beneficiaries are entitled to a 15 per cent tax offset on the taxable portion of the drawdowns from a death benefit income stream (or drawdowns are tax-free if either the deceased or the beneficiary are age 60 or over).

In contrast, when insurance proceeds are invested outside of super in the beneficiary's personal name, all assessable earnings are taxed at the beneficiaries' marginal tax rate. Even though this strategy allows the client to commence an income stream with their own superannuation in retirement, generally, the client would have paid more tax outside of super compared to commencing a death benefit income stream.

## CASE STUDY

Adrian was working as a management consultant before dying at age 40. He is survived by his wife Elaine, aged 35, and two young children. Fortunately, Adrian took out life insurance inside super and nominated Elaine as the sole beneficiary.

The trustee of the super fund informs Elaine that she is entitled to receive a total super death benefit of \$1.6 million, of which she can take either a lump sum, income stream or combination.

Elaine works part-time as an accountant and earns \$85,000 per annum. She will need additional pre-tax income of \$85,000 per annum to maintain her current lifestyle.

## CASE STUDY: PART 1 – \$85,000PA INCOME REQUIREMENT

We compare the following two scenarios:

### 1. Commence a \$1.6 million death benefit account based pension and drawdown pre-tax income of \$85,000 per annum (indexed at 3 per cent per annum) from the account based pension (ABP).

Payments from the death benefit income stream will be split between minimum pension payments and lump sum commutations, resulting in the best TBC and income tax outcomes (see Tip section later in the article); or

### 2. Cashout the insurance proceeds as a lump sum and invest in managed funds. Drawdowns from the managed funds are adjusted to ensure the same net cashflow is achieved as scenario 1.

Other relevant facts and assumptions:

- Elaine's existing super balance is \$100,000 (100 per cent taxable component).
- Retirement age is 65 and number of years to retirement is 30.
- Investment return net of fees is 6 per cent per annum (ignoring franking credit and incorporates capital gains).
- Wages and TBC is indexed at 3 per cent per annum.
- Annual income at retirement is \$50,000 per annum in today's dollars, which is equivalent to \$121,363 in future dollars (indexed at 3 per cent per annum).

## RESULT – PRE-RETIREMENT

As illustrated in Diagram 1, where proceeds are invested in managed funds outside of super, the capital runs out five years earlier than compared to retaining funds inside super as a death benefit income stream. This is because the tax payable on earnings outside of super outweighs the tax payable on the pension payments from the ABP. In order to receive the same amount of net income, more needs to be withdrawn from the managed fund investment.

For example, in the first year under scenario 1, \$85,000 from the death benefit income stream plus \$85,000 salary will result in net (after tax) income of \$133,858. Under scenario 2, if Elaine invests in managed funds, she needs to withdraw \$107,160 from managed funds to supplement her salary to achieve the same after tax income of \$133,858.

It is worth noting that the \$85,000 drawdown from the death benefit income stream consists of a monthly 4 per cent minimum pension payment, with the remainder taken as commutations. Refer to the Tip section after the case study for a detailed explanation of the drawdown strategy.

## RESULT – RETIREMENT AND TRANSFER BALANCE CAP

Under scenario 1, Elaine uses up her \$1.6 million TBC when she commenced the death benefit income stream and she will not be able to increase any unused TBC by future indexation.

*Continued overleaf*



However, as any excess of the minimum pension payment taken as lump sum commutations are 'debits' against Elaine's transfer balance account, when Elaine retires at age 65, her transfer balance account is -\$745,953. This means that she will have available TBC space of \$2,345,953.

While this is significantly lower than the TBC of \$3,800,000 (indexed at 3 per cent per annum for 30 years) that would be available under scenario 2, it is more than enough to convert Elaine's entire accumulated superannuation savings of \$1,255,306 to the tax-exempt retirement phase.

Therefore, Elaine's ability to convert her entire accumulated superannuation into the tax-exempt retirement phase is not affected by her decision to take the death benefit as an income stream.

## CASE STUDY: PART 2 – MINIMUM DRAWDOWN

Instead of drawing down \$85,000 per annum (indexed) of gross income each year, Elaine draws the minimum 4 per cent income from the death benefit income stream. All other assumptions are the same as in part 1 of the case study.

We compare the following two scenarios (Table 1):

**1. Commence a \$1.6 million death benefit ABP and drawdown 4 per cent minimum;** or

**2. Cashout the insurance proceeds as a lump sum and invest in managed funds.** Drawdowns from the managed funds are adjusted to ensure the same net cashflow is achieved as scenario 1. (Refer to Table 1.)

Due to the tax concessions on pension assets and the 15 per cent tax offset on the death benefit

pension payments, after 30 years, scenario 1 ended up significantly better than scenario 2.

Given Elaine is only drawing down the minimum 4 per cent per annum, some of the earnings will be accumulated overtime, resulting in the balance of the death benefit income stream at \$2,797,616 after 30 years. This is more than double the amount accumulated if held outside of super under scenario 2.

In terms of the TBC, under scenario 1, Elaine has no TBC at retirement, so her entire accumulation phase super of \$1,255,306 will have to be retained in accumulation phase. In contrast, under scenario 2, Elaine will have a TBC of \$3,800,000 available (\$1.6 million indexed at CPI of 3 per cent per annum). This allows Elaine to convert her entire super balance of \$2,587,104 into an ABP (assuming the funds held outside of super are contributed to super over a period of time).

Table 2 compares the two scenarios. Scenario 1 results in an account balance of \$6,658,043 at age 90, whereas scenario 2 results in an account balance of \$1,875,553. This represents \$1,310,084 and \$369,047 respectively in today's dollars. (Refer to Table 2.)

This case study demonstrates that using up the TBC prior to retirement in the form of a death benefit income stream, provides a better overall result for the client. This is because the sooner a client can take advantage of the nil tax on pension asset earnings, the greater the savings.

**Table 1**

Pre-retirement	Scenario 1: Death benefit income stream	Scenario 2: Proceeds held outside of super
Commencement amount	\$1.6 million	\$1.6 million
Drawdown	4% (minimum pension payment, \$64,000 first year)	An amount that would provide the same cashflow net of tax as scenario 1. For example, \$86,160 in first year to equal \$64,000 pension payment.
Earnings (net of fees but before tax)	6%	6%
Balance at age 65 (future value)	\$2,797,616	\$1,331,798
Elaine's accumulated superannuation at age 65	\$1,255,306	\$1,255,306





Another way to look at the results of this case study is that the cumulative effect of the tax concessions on a death benefit income stream makes taking insurance inside super a significant advantage over taking insurance outside of super. However, this strategy would only be available to dependant beneficiaries who are capable of commencing a death benefit income stream.

**Tip: If deceased and spouse are both under age 60, take lump sum commutations for amounts exceeding the minimum wherever possible.**

*From 1 July 2017, an income stream commenced as a result of the death of a member will always retain its characteristics as a death benefit income stream.*

*Furthermore, lump sum commutations from a death benefit income stream will always be treated as a lump sum death benefit payment for tax purposes. As lump sum death benefits paid to someone who is a dependant of the deceased at the time of death are not subject to tax, commutations from a death benefit income stream are also tax-free.*

*In contrast, pension payments are taxed at the beneficiary's marginal tax rate less a 15 per cent tax offset, if the beneficiary and the deceased were both under 60 years of age.*

*Clients who are under age 60 should ensure any pension payment paid*

*from a death benefit income stream is limited to the minimum. Any additional amount should be taken as a lump sum, so it can be taxed as a lump sum death benefit payment which is tax-free.*

*This strategy could result in less tax payable on payments from a death benefit income stream for clients where the insured person and their beneficiary are both under age 60.*



*The TBC effectively restricts the amount of super ... that can be received as a death benefit income stream to \$1.6 million and any excess must be cashed out of the super system.*

*Taking payments as commutations rather than pension payments also has TBC benefits. For TBC purposes, lump sum commutations are treated as a 'debit' event for the beneficiary's transfer balance account, whereas pension payments are not. Therefore,*

*taking payments as lump sum commutations will 'free-up' the beneficiary's TBC that has already been used.*

## CASE STUDY

Kevin passed away in August 2017, aged 45. At the time of death, he had superannuation benefits of \$200,000 (100 per cent taxable component) and life insurance inside superannuation of \$600,000. Kevin made a binding death nomination for his spouse, Hilda, 43 years of age, to receive 100 per cent of his super benefits, including insurance. Kevin is also survived by two minor children.

Hilda is on a salary of \$90,000 per annum and wants to generate an additional pre-tax income of \$60,000 per annum. She decides to take the entire \$800,000 from Kevin's super as a death benefit income stream.

Table 3 compares taking the \$60,000 as a pension payment vs splitting the payment between minimum pension payments of \$32,000 and lump sum commutations of \$28,000. Hilda could save tax of \$6,720 per annum if she splits the \$60,000 payment. (Refer to Table 3.)

Furthermore, for TBC purposes, when Hilda commences the death benefit income stream, \$800,000 will be credited to her transfer balance account. By taking the amount above the minimum as a commutation,

*Continued overleaf*

**Table 2**

Retirement	Scenario 1: Death benefit income stream	Scenario 2: Proceeds held outside of super
TBC available	Nil	\$3,800,000 (indexed at 3% pa)
ABP at age 65	\$2,898,179	\$2,619,829
Accumulation phase balance at age 65	\$1,255,306	Nil
Pension drawdown	Lower of minimum pension payment or \$121,363 (equivalent to \$50,000 in today's dollars) indexed at 3% pa	Lower of minimum pension payment or \$121,363 (equivalent to \$50,000 in today's dollars) indexed at 3% pa
Gross earnings (net of fees)	6% pa	6% pa
ABP at age 90	\$2,384,031	\$1,875,553
Accumulation phase at age 90	\$4,274,012	Nil
Total (future dollars)	\$6,658,043	\$1,875,553
Value in today's dollars (discount rate of 3% pa)	\$1,310,084	\$369,047



## QUESTIONS

To answer the following questions, go to the Learn tab at [moneyandlife.com.au/professionals](http://moneyandlife.com.au/professionals)

**1 Which of the following correctly describes how proceeds from a life insurance policy held in superannuation must be cashed on death to the surviving spouse of a member?**

- A reversionary transition to retirement income stream, where the beneficiary has not met a condition of release.
- A lump sum, retirement phase income stream or a combination of both.
- A lump sum only.
- A retirement phase income stream only.

**2 Assuming the beneficiary's transfer balance account is zero, which of the following correctly describes the maximum amount of superannuation benefits that can be used to commence a death benefit retirement phase income stream?**

- \$1.6 million.
- Nil.
- \$1 million.
- \$800,000.

**3 Joan is age 50 and commences a \$1.6 million death benefit retirement phase income stream in June 2018. What is the value of Joan's personal transfer balance cap in 2028?**

- \$1.6 million.
- \$1.85 million.
- Nil.
- \$1 million.

**4 The main reasons a death benefit income stream produces a better result than cashing the death benefit and investing outside super are:**

- Earnings are taxed at their marginal tax rate.
- Earnings are taxed at the top marginal tax rate.
- Earnings are tax-exempt in retirement phase and beneficiaries are entitled to a 15 per cent tax offset on the taxable portion of the drawdowns from a death benefit income stream (or drawdowns are tax-free if either the deceased or the beneficiary are age 60 or over).
- None of the above.

**5 Which of the following correctly describes the advantages of taking lump sum commutations from a death benefit income stream if more than the minimum is required and the clients are under age 60?**

- Commutations are tax-free, whereas pension payments are taxed at the client's marginal tax rate less a 15 per cent tax offset. Also, lump sum commutations are transfer balance debits that 'free up' cap space.
- Commutations are taxed at the marginal tax rate less a 15 per cent tax offset.
- Lump sum commutations are transfer balance credits, which 'use up' TBC space.
- None of the above.



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Hilda will be freeing-up some of her TBC, as every subsequent lump sum commutation is treated as a 'debit' event for TBC purposes. This could allow Hilda to convert more of her accumulation super savings into tax-exempt retirement phase when she retires.

It is important to note that this strategy of drawing down amounts

as lump sum commutations, as opposed to pension payments from death benefit income streams, can also apply to death benefit income streams commenced prior to 1 July 2017. Advisers should review all clients who are under age 60 with death benefit income streams to see if any adjustment needs to be made.

Clients should also consider the

tax consequences of this strategy, including the application of any potential anti-tax avoidance provisions, where the sole or dominant purpose of entering into a transaction is to gain a tax benefit.

*Yvonne Chu, Senior Technical Manager, Colonial First State.*

**Table 3**

	100% pension payment	Split between pension and commutation
Pension payment	\$60,000	\$32,000
Commutation (taxed as lump sum death benefit)		\$28,000
Tax	\$14,400	\$7,680
<b>Payment net of tax</b>	<b>\$45,600</b>	<b>\$52,320</b>



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While we all know Neil Armstrong **changed history**, Robert Gilruth's story is lesser known. Gilruth was head of NASA's Manned Spacecraft Center. His team tested the spacesuits, lived on rehydrated space meals and endured endless g-forces in a centrifuge. And although Gilruth never left Earth, Armstrong couldn't have taken that **giant leap forward** without him.

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