NOVEMBER 2018 VOLUME 30 | ISSUE 10

MONEY & LIFE

The magazine for FINANCIAL PLANNING PROFESSIONALS

Passing the baton

MARISA BROOME CFP® AND THE PROFESSION'S JOURNEY

Jason Andriessen CFP®

5 DRIVERS OF SUCCESS FOR THE PRACTICE OF THE FUTURE

\+ INTERGENERATIONAL PLANNING | AUSSIE EQUITIES OUTLOOK | ACTIONABLE TO DO LISTS
PRO BONO PLANNING | MEANS TESTING POOLED LIFETIME INCOME STREAMS

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IT'S A BRIGHT FUTURE

Financial planning is on a positive trajectory. This important transformation our profession is undergoing will help us achieve the status of a recognised profession.

The final FASEA framework for the education, training and ethics for financial planners is imminent. The raising of minimum standards will finally mean all financial planners will be required to meet the same standards that FPA members have long been held to.

The outcomes of the Hayne Royal Commission will create further opportunities for planners, businesses and licensees to refine and reinvent the way we do business and take care of clients.

Australians deserve trusted, transparent advice, and these reforms will create an industry-wide commitment to this. It will create a positive future for financial planning and ensure we remain focused on our purpose: to stand with Australians for a better financial future!

NEW FPA CHAIR

I would like to sincerely thank our outgoing FPA Chair, Neil Kendall CFP® who has made an outstanding contribution to the FPA, and to financial planning broadly.

Neil has served on the Board for eight years, which includes four years as Chair, and his term concludes on 21 November. I have seen the dedication, leadership and passion from Neil over this time and personally thank him for his outstanding commitment.

I warmly welcome our incoming Chair, Marisa Broome CFP®. Marisa is a long-standing, dedicated and dynamic member of the FPA. She is in her second term as an FPA director, having twice been elected by FPA members to the Board.

On page 28, we profile our outgoing and incoming Chairs, and highlight the work done and the journey ahead for the FPA.

CONGRESS 2018 KICKS OFF

At the time this magazine lands on your desk, this year's FPA Professionals Congress will be underway in Sydney. Once again there's a fantastic number of FPA members attending. It's the perfect setting to share ideas, meet new contacts and learn from others.

Our headline speakers include former Treasurer Peter Costello AM, future change maker Finn Vicars, financial services expert Mitch Anthony and philanthropist Alex Sheen.

The program is also covering the up-to-the-minute priorities in financial planning, including a FASEA update, compliance and best practice issues, as well as support around personal development.

This is our final edition of *Money & Life* magazine for 2018. It's been a fast and furious year and I thank each of you for your support, commitment and involvement as an FPA member.

Enjoy this edition.

Dante De Gori CFP®, CEO

Follow Dante on Twitter @ddegori10


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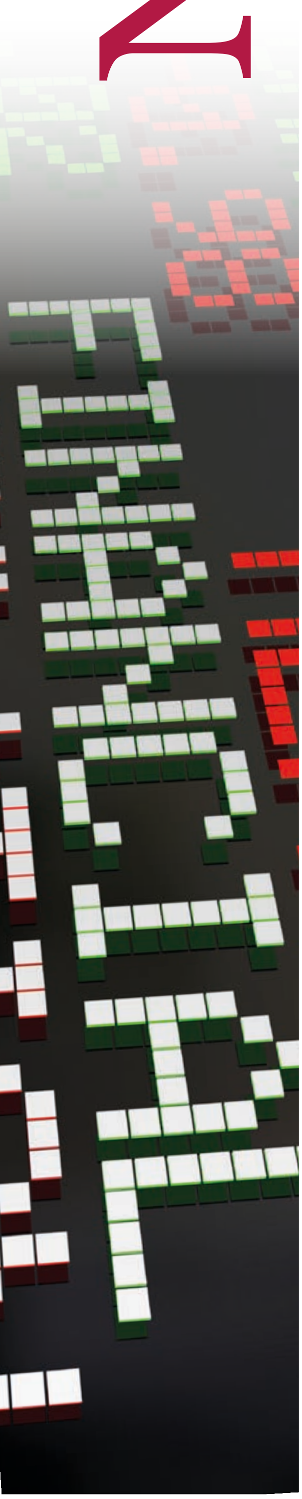
News



ROYAL COMMISSION QUESTIONS INDUSTRY

On Friday 28 September, Commissioner Kenneth Hayne handed down the interim report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services industry. And while the report doesn't provide any recommendations, it does provide an indication as to the recommendations that are likely to follow in the Royal Commission's final report.

COMMISSIONS

The report was critical of the grandfathering of commissions on superannuation and investment products, as well as criticising current life insurance commission arrangements. The report reasoned that all commission arrangements create conflicts of interest between the interests of the adviser/licensee and the client, and questioned why insurance advice should be permitted to retain this conflict.

The FPA supports the phasing out of grandfathered commissions, provided the following five principles are met:

1. The change is in the client's best interest and no client will be worse off;
2. Commission payments are refunded to clients and not retained by the product provider;
3. Tax relief is provided for any adverse tax consequences;
4. Centrelink benefits are protected from any adverse consequences; and
5. Exit fees be banned in line with the Government's 2018/19 Budget proposal on both super and investment products.

According to FPA CEO Dante De Gori CFP®, the FPA's position on the grandfathering of commissions is that they should be subject to the FoFA provisions after a three year transition period.

"This would allow those planners with grandfathered commission arrangements to continue to receive those commissions after three years, subject to the FoFA requirements applying to other financial products," De Gori said. "Those planners not providing ongoing advice would no longer receive grandfathered commissions, with the proviso that product providers rebate unpaid commissions to those clients not receiving advice after the three year transition period."

However, the FPA's stance on life insurance commissions is that they not be changed at this point, as life insurance arrangements were recently reviewed and major changes are being implemented through the Life Insurance Framework, with a review scheduled for three years' time.

FEES FOR NO ADVICE

The report also traversed the charging of fees for no advice, particularly in respect to ongoing arrangements. The FPA does not condone any situation where a client is charged fees for no advice or service that is not in their best interest.

"Fees for no advice is absolutely unacceptable and clearly a breach of the FPA Code of Ethics and Professional Practice," De Gori said. "The professional obligations that must be upheld by all FPA member practitioners are captured in the eight principles of the FPA Code of Ethics."

CONFLICTS OF INTEREST

The Royal Commission's findings also suggested that the approach taken with the FoFA reforms of controlling conflicts of interest, and that of the FSR reforms of disclosing conflicts of interest, may not be working at all. The report questioned whether the

Continued on page 8

NEW CODE MONITORING BODY

In response to FASEA's Code of Ethics and to help address many of the concerns raised by the Royal Commission, the FPA has lodged an expression of interest with ASIC to establish a Code Monitoring Body.

According to FPA CEO Dante De Gori CFP®, the proposed new Code Monitoring Body will be a separate legal entity to the FPA.

De Gori confirmed that the FPA had been working closely with other key associations to develop an industry solution for code monitoring.

"It is our intention that the compliance scheme will cover both FPA members and non-members," De Gori said. "The FPA intends to enter into an agreement with the co-operating associations to collaborate on the development of the compliance scheme."

While the finer details of this new Code Monitoring Body still need to be ironed out, the FPA intends to submit a draft application to ASIC for compliance scheme approval by the end of December 2018.

NEWS

Continued from page 6

licensee/adviser model should be replaced by an individual licensing one.

It's a position the FPA remains agnostic on: "The FPA does not have a policy position advocating for self-licensing as a preferred licensing model, and maintains its position as being neutral and agnostic regarding the licensee model structure," De Gori said.

"The role of a licensee is critical to the current regulatory system and each planner must decide which licensee structure and/or business model works best for them and their clients."

MOVING FORWARD

While De Gori conceded there were many findings in the report that were of concern for the profession, he believed the Royal Commission's final recommendations would help strengthen the professional and ethical standards of planners.

"Financial planning is of national importance for all Australians. We need to work hard to ensure that the bad practises of the past aren't repeated going forward," he said.

In October, the FPA surveyed members in relation to the report's findings, with the feedback helping shape the FPA's submission in response to the report. The Royal Commission will conduct a further round of hearings before handing down its final report in 2019.

CRC FINDS AGAINST CELEBRITY PLANNER

The FPA's Conduct Review Commission (CRC) has found that high-profile planner, Sam Henderson, formerly of Henderson Maxwell, had breached the FPA's Code of Professional Practice.

In handing down its decision, the CRC found that nine out of the 10 alleged breaches of the FPA's Code were proven. The allegations raised in the complaint related to the giving of an SOA or the contents of it.

In responding to the CRC's determinations, FPA CEO Dante De Gori CFP® said: "FPA members are required to uphold the highest ethical standards within the financial planning profession. Mr Henderson failed to meet those standards.

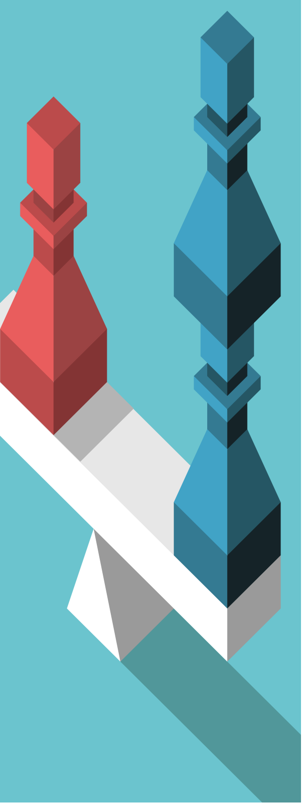
"Consumers actively seek out FPA members when looking for financial advice because of the higher standards the FPA requires. The FPA is committed to standing with Australians for a better financial future and enforcement of the FPA Code is an important aspect of that commitment."

To read the CRC's full determinations and reasons for this case, go to fpa.com.au.

EQUITIES

AUSSIE EQUITIES TO TRACK SIDEWAYS

Money & Life asks Dougal Maple-Brown for his thoughts on how Australian Equities will hold up over the next 12 months.



Q: HOW DO YOU THINK AUSTRALIAN EQUITIES WILL TRACK IN 2019?

Australian equities are likely to track sideways over the next 12 months. We believe the market is a touch expensive, as a whole, and indeed, there are pockets of the market that are very overpriced.

Q: WHAT ARE THE KEY THEMES LIKELY TO SHAPE AUSSIE EQUITIES IN 2019?

We are of the view that interest rates are likely to rise over the medium and longer term, and this is likely to prove challenging for most asset classes.

Recent years have seen increasing divergence in pricing between the 'value' and 'non-value' names. One of the key drivers of this shift has been an unprecedented decline in interest rates, which has seen many of the lower risk and yield sectors, including health care, transport and REITs, outperform strongly. Growth stocks have also benefited substantially, with low discount rates increasing the present value of their long-dated earnings.

We believe the global macroeconomic environment remains supportive and that expectations for interest rates will continue to appreciate. We remain underweight to many of the highly rated growth and yield names, which we believe are still trading on excessive multiples and will tend to underperform in a rising rate environment.

Q: WHAT ARE THE KEY CONSIDERATIONS WHEN ALLOCATING TO AUSSIE EQUITIES?

Given our view that the Aussie equity market is likely to track sideways, you need to consider that your return is expected to be limited to dividends. In this regard, the Australian equity market looks reasonably well placed and on our numbers, is forecast to yield approximately 4.5 per cent on a cash basis over the next 12 months and almost 6 per cent when you include the benefit of franking.

Q: WHERE ARE YOU SEEING INVESTOR OPPORTUNITIES?

Whilst the market looks expensive overall, there is significant variation within it. Recent years have seen increasing divergence in valuations amongst the out-of-favour value names and the more expensive yield and growth segments of the market. This has created pockets of the market that we believe offer compelling value.

Looking to the key sectors, we believe resources remain attractive. Whilst strong performance over the last two years has moderated some of the extreme mispricings, the sector still rates well on most value metrics.

The heavily discounted Telstra Corporation offers defensive characteristics at an attractive valuation. Several of the general insurers, including QBE Insurance and Suncorp, have also underperformed and represent reasonable value. The banks have also underperformed over the last year, and in our view, represent broadly fair value.

In contrast, we observe certain segments of the market that appear extremely overvalued. These include the highly rated growth stocks such as CSL, Macquarie Group, Aristocrat, Treasury Wine Estates, Cochlear and A2 Milk. Transport stocks, including Transurban Group and Sydney Airport, are also nearing record highs and property trusts look expensive. It is our view that these segments of the market will come under significant pressure, as interest rates rise.

Q: WHAT ARE YOUR THREE BEST HIGH CONVICTION POSITIONS?

Our highest conviction position is not holding a stock – CSL! After doubling over the last two years, we believe the stock is priced for perfection at almost 40x next year's earnings. Of the stocks held, our highest conviction positions remain our resource holdings. Although the stocks have done well from their lows in 2016, valuations still appear favourable to us. Therefore, we continue to hold BHP, Rio Tinto, Woodside Petroleum and Origin Energy.

Dougal Maple-Brown is Head of Australian Equities at Maple-Brown Abbott.

PERSPECTIVE

What will it take to thrive in a changing environment?

2018 Macquarie Accounting and Financial Services Benchmarking Report

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1 JULY 2018 TO 30 SEPTEMBER 2018

COMPLAINTS AND DISCIPLINE

In the June to September quarter, the FPA received five new complaints, finalised four complaints and have nine ongoing complaints. Of those ongoing complaints, three are currently with the Conduct Review Commission (CRC), one is in the process of finalising the report by the investigating officer to the CRC, four are in the process of seeking submissions from members and/or complainants, while one is in the processes of being dismissed.

AUTOMATIC TERMINATIONS

Five members were automatically terminated under the FPA Constitution during the quarter. Three members were terminated by their licensee for a breach of the law, while two members were terminated as a result of not meeting the fit and proper person requirements of the FPA Constitution. Over the last period, the FPA has experienced a substantial increase in the number of automatic terminations as a result of licensees pro-actively notifying the FPA about the conduct of their authorised representatives.

FPA CONFIDENTIAL

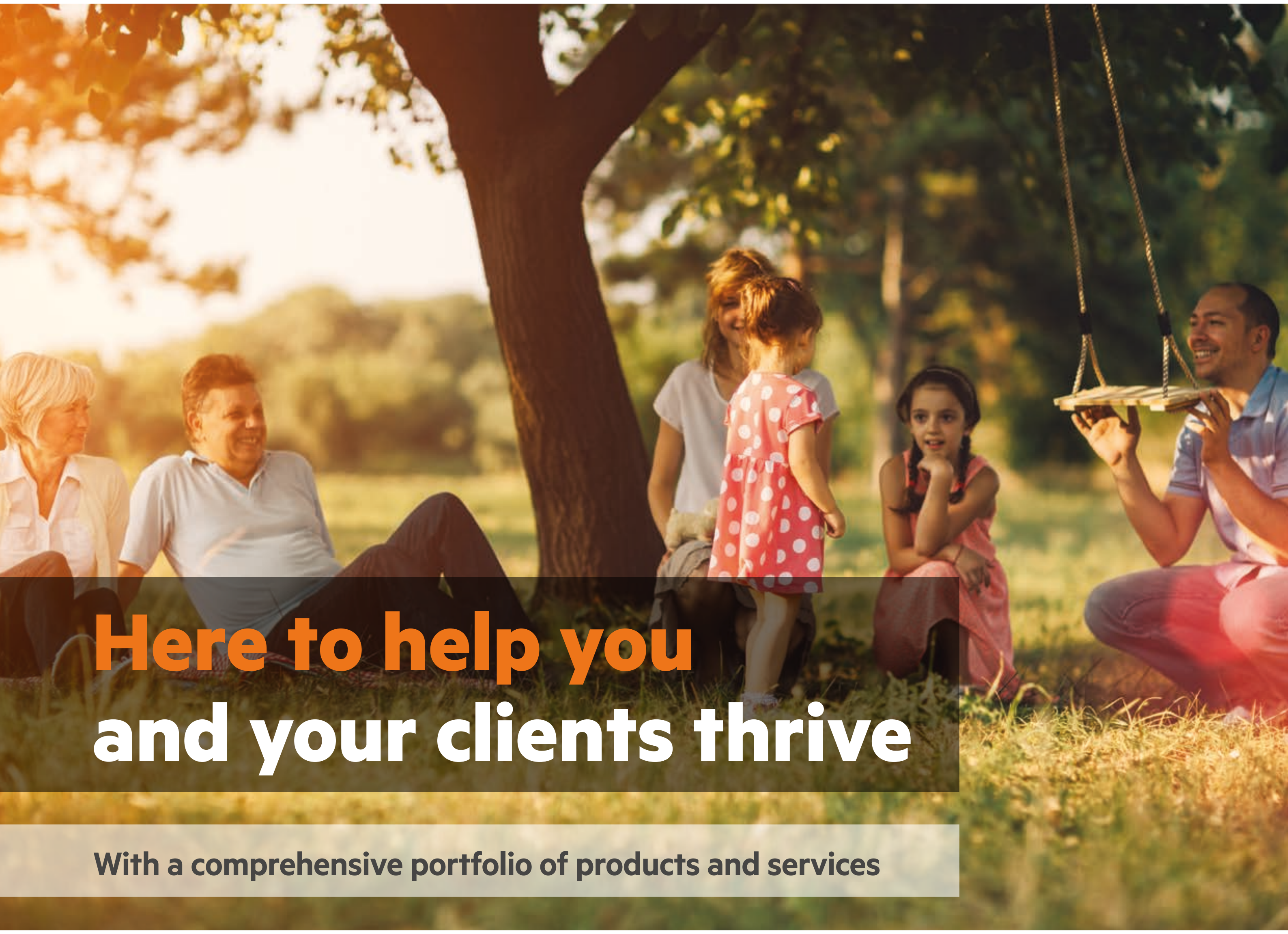
During the quarter, the FPA received one FPA Confidential complaint about a member. In this instance, the FPA was already aware of the member's conduct and was actively taking action.

8	**Complaints ongoing as at 1 July 2018**
5	New Complaints
4	Closed Complaints
9	**Complaints ongoing as at 30 September 2018**
0	Members Suspended
0	Members Expelled (CRC)
5	Members Terminated (Constitution)
0	Other Sanctions (CRC)
0	Referred to Professional Designations Committee for Sanction

GUIDANCE AND REASSURANCE

The Professional Accountability team enjoy hearing from you in relation to seeking assistance and guidance. If we are unable to help you, we will likely be able to assist you to find someone who can. You can contact the team directly by email at *professional.standards@fpa.com.au*

Australian Unity



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OUT AND ABOUT

FPA members enjoyed AFL Grand Final Lunch

KICKING GOALS *for charity*

The FPA Melbourne Chapter is grateful for the support of the AFL Grand Final Lunch sponsors.

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It was another sell-out event for the ***FPA Melbourne Chapter's*** *annual AFL Grand Final Lunch on 24 September. Guests were entertained by a star-filled AFL line-up, which included footy legends Tim Watson, Billy Brownless and Erin Phillips, while comedian Peter Rowsthorn kept the crowd laughing. An amazing raffle was organised in support of the Future2 Foundation.*

WE LOOK FORWARD TO SEEING MEMBERS AT THEIR NEXT LOCAL CHAPTER EVENT. **FOR UPCOMING EVENTS, VISIT FPA.COM.AU/EVENTS** some recent Chapter events, including the annual and a seminar in Lismore, NSW.

ENGAGING *the disengaged*

Peita Diamantidis (Caboodle Financial Services) and Stuart Garrett (Stuart Garrett Lawyers) were the guest speakers at the ***FPA Far North Coast NSW Chapter*** *member seminar on 14 September. The seminar, which was held at the Southern Cross University Lismore Campus, featured a presentation by Peita on 'Using innovation to engage the disengaged', while Stuart spoke on estate planning.*

WOMEN IN WEALTH CAPS OFF YEAR

After its launch in October last year, the **FPA's Women in Wealth** program has capped off another successful year, which featured an expanded program of events around Australia – all designed to attract more women to the profession and to foster community, innovation and leadership amongst existing financial planners.

This year's program included networking events in Adelaide, Brisbane, Melbourne, Perth and Sydney.

At the recent September Adelaide breakfast, members and guests heard from **Sarah Gunn**, whose social enterprise trains homeless and disadvantaged people, and **Marilyn Little**, a fashion stylist who shared clever travel and styling secrets.

The Brisbane event in October featured 2018 NSW Rural Women's Award winner, civil engineer and infrastructure entrepreneur, **Jillian Kilby**, who spoke about the importance of listening to your intuition when making decisions.

Peace advocate and 2005 London bombing survivor, **Dr Gill Hicks**, provided a powerful and inspirational presentation at the October breakfast in Sydney.

According to FPA Chief Operating Officer, Pene Lovett, the FPA Women in Wealth networking event series is intended to benefit both women and men, as everyone has a role to play in advancing work culture and diversity.

"With women currently making up 26 per cent of the FPA membership, and about 20 per cent in the profession, research shows that consumer demand for female financial planners is growing. Therefore, the FPA Women in Wealth program has specifically been designed to engage with women and encourage more of them to consider a career in financial planning," Lovett says. "But this won't be possible without the support of men to help champion the cause of women."

Lovett says the FPA is committed to supporting more women in their choice of financial planning as a career. "By encouraging more women to carve out a career in financial planning, both the profession and consumers will benefit from greater gender balance."

Lovett adds that the FPA Women in Wealth program has been developed to promote networking and mentoring opportunities for women, helping support them in their career progression, with the ultimate objective being to grow the number of women in the profession.

An important part of this strategy is the bring a 'Mentee for Free' initiative, which is aimed at encouraging emerging professionals and supporting women to the profession.

"In an increasingly competitive business environment, gender diversity has been proven to support sound business strategy. Employees are looking to work for progressive companies and they want to feel represented and supported in their career development goals," Lovett says.

FPA Women in Wealth is a joint collaboration between the FPA and Financial Executive Women (FEW).

The FPA Women in Wealth events will return in 2019.

In the meantime, meet the **FPA Women In Wealth Champions** on page 18.

For more information on the FPA Women in Wealth events, contact events@fpa.com.au or visit fpa.com.au/events.

WOMEN IN WEALTH CHAMPIONS

The FPA acknowledges the support of the following **Women in Wealth Champions**, who have helped lead and promote this important initiative in their communities and professional networks.

Allison Macfarlane, Centuria Capital

Fran Hughes CFP®, Intuitive Money

Jade Khao CFP®, Aon

Marietta Gibbs, Allan Gray

Marisa Broome CFP®, Wealthadvice

Sally Mackey CFP®, StatePlus

Pene Lovett, FPA

Rosa Velkovski, NAB Asset Management

Samantha Harrison CFP®, Wotherspoon Wealth

Sheila Cabacungan CFP®, Carnegie Financial Planning

Tracey Sofra CFP®, Sofcorp Wealth

The 12th FPA Women in Wealth Champion is: **Caroline Rees CFP®, Telstra Super**.

The FPA extends its gratitude to these women for their support of the **FPA Women in Wealth** initiative.

Insight

OPINION CORNER

HEIRS APPARENT

Question: As intergenerational planning becomes increasingly important, how are you engaging with the next generation of clients and what are they expecting from you?

Peter Foley CFP®

Director, Thirdview Financial Planning

Licensee:
Financial Services Partners

At Thirdview, we have a substantial client segment that we describe as aspirational. They are typically aged between 35 and 55 years, are time poor and are seeking advice about how they can make the most out of their current position. However, these clients either don't know how to or just don't have the time to implement strategies they know to be worthwhile.

Comments and questions from this group include: 'Are we doing everything we could be to get ahead?'; 'What are the things other people in our position are doing that work?'; and 'We want to make sure the money we have is working as hard for us as it can be.'

This kind of language is clearly aspirational and so our focus is very much on helping our clients to design their ideal lifestyle and then coaching them to achieve it.

With aspirational lifestyle at the centre of our client focus, expectations are that we are able to clearly articulate key strategies that readily deliver value and clearly show improved outcomes. Clients want to see where they're headed and how our advice brings them closer to achieving their ideal lifestyle and aspirational goals.

Because we ask our clients to articulate their own 'why', our advice coaching is not focused on helping clients understand the importance of advice, rather the focus is on the strategies themselves. That means clients are gaining a deeper understanding of their finances and feel more in control of their destiny. It also means that the value of advice is self-evident.

As a result, our clients feel more empowered to chase their goals and ideal lifestyle, which has also resulted in high client engagement.

James McFall CFP®

Managing Director, Yield Financial Planning

Licensee:
Lifespan Financial Planning

In order to meet the needs of the 'next generation' of clients, it is important to understand what's important to them and what appropriate opportunities exist, then to offer a service that is relevant.

Common themes we see that exist for people in their 20s and 30s include: developing a budget; buying a home; starting and supporting a young family; career progression; investing; and life insurance.

Generally, our younger clients engage with us more electronically, starting with how they find us. While our clients are typically professionals over 45 who are planning for retirement, we find we attract more forward-thinking young professionals through digital marketing efforts.

Their short-term goals, like buying a property, reducing debt or investing, are important to them, but they also have an eye on the long game. They want us to help them achieve a financial position where they don't have to work, albeit they may choose to. The value we create centres on options and choice.

They are also more likely to be happy working together with us without actually meeting in person, using mediums like video conferencing as a time effective preference.

We recognise that our younger clients represent our future retiree clients and we actively look to build relationships with like-minded people, who we can assist as their needs evolve.

Question: As intergenerational planning becomes increasingly important, how are you engaging with the next generation of clients and what are they expecting from you?

Troy Theobald CFP®

Director, Financial Services, Robina Financial Solutions

Licensee: Australian Advice Network

Intergenerational wealth transfer is underway. We have the 'grandparents', who are probably the original clients. They are now needing our aged care advice business. This is a traumatic time for them. You then have the remaining person in the family home needing the kids (probably in their 60s) to help them through this period. They need someone to help with their investments, Centrelink and to provide them with reassurance.

The next generation – the 'kids' – are dealing with their own retirement situation. This generation is needing help from our pre/post retirement service. They need to know if they can afford to retire and what will they do with their time.

The third generation is dealing with home ownership, their children's education costs and periods of being a single income household. We help this this generation with mortgage reduction strategies and wealth creation programs.

The aged care part of our business is where we tend to see family issues arise. You have a generation that has not prepared their estate planning correctly, and who no longer have the capacity to do so. They need their well-meaning adult children to agree on the outcomes. This is where we see family issues arise. This is where the family tends to split into groups and where the advice process for the family can break down.

We find most clients are wanting information online, although retired clients still want to come into the office for meetings.

The pre-retirement and the next generation have children and jobs, so they are generally time poor, but they are still wanting information and to know if they are on track with their financial planning. They seem more concerned about being on track than being in our office.

The younger generation in their 20s and 30s are seeing endless negative press on advice, products, lending and insurance. That's where I see the issues arising down the track. With increased regulation, the cost of advice will increase. This is where the family unit can help their children (our future clients) access advice sooner.

Those clients who are receiving advice and know they are on track, tend to refer their friends and family. Our job is to help them and help spread the word of the value of good advice.

Tony Sandercock CFP®

Financial Adviser, wetalkmoney

Licensee: Boston Reed

Intergenerational planning is much more than getting 'wills' done or saving some tax. Many estate transfers fail within one generation, due to evaporated wealth and disrupted family harmony.

Two important pieces of the puzzle that are missing for many people are:

1. Having important financial conversations between older family members and future heirs. Parents need to outline their expectations and why they have come to those decisions; and

2. Heirs not being adequately prepared to manage the wealth.

We like to tackle both these issues head on. As part of our Estate and Generational Planning Review, we have an educational mandate to teach the trustees, beneficiaries and children of clients about their potential responsibilities, stewardship and the importance of managing their own affairs. That means they participate in that review.

If you are talking to the child for the first time after the parent's death, you've missed the boat completely. Heirs typically fire their parents' financial advisers after inheriting their wealth.

Our experience hasn't been like that. Most are in their 50s (or older) when they inherit, and planning for life after full-time work is often their number one financial priority. With the options complex and the stakes high, they need (and will seek) advice. Given the existing relationship, we are a logical option.

Question: As intergenerational planning becomes increasingly important, how are you engaging with the next generation of clients and what are they expecting from you?

Cameron Felice CFP®

Wealth Partner Manager, Elston
Licensee: EP Financial Services

During the next 20 years, Australians aged over 60 will transfer $3.5 trillion to younger family members. At Elston, we see this as an excellent opportunity to engage the next generation of clients. However, it's not without its challenges.

The financial planning industry is moving away from the traditional service-based offering, and becoming more experience-based.

Regardless of which business the next generation engages with, they want memorable experiences, and often draw comparisons between other services readily available to them.

They expect convenience and relevant information at their fingertips (mostly via their phones) and above all, authentic connections with people who can enrich their livelihood and purpose, providing a sense of empowerment.

To encourage engagement with the next generation, Elston places a strong focus on client experience. We offer tiered services ranging from a traditional, face-to-face model, through to a technology-based service, including an educational hub with the latest information, which is accessible anytime.

In addition to this, Elston has introduced a philanthropy service to help the next generation take on social responsibility and participate in values-based investing.

We also place great importance on family tree discussions with an educational focus, so we can fully understand the family dynamics.

By encouraging the next generation to attend meetings with their parents, and recommending that legacy planning conversations begin early, we develop a genuine connection with our clients, resulting in more meaningful outcomes for all.

Andrew Dunbar CFP®

Director, Apt Wealth Partners
Licensee: Apt Wealth Partners

Intergenerational planning has always been a vital part of what we offer at Apt Wealth Partners. Our approach is to understand our client's holistic goals and needs, and create strategies to grow and protect their wealth. This includes ensuring their families and next generations are provided for if an unexpected event occurs.

Our intergenerational approach isn't limited to wealth protection strategies for our clients and their families. We are focused on helping younger generations take control of their finances and start growing their wealth independently, too.

Young Australians simply aren't saving as much money as their parents did. And while there are many factors that influence this – from today's high cost of living to changing attitudes to money – we believe this is something we can change.

We have recently launched BeApt to help prepare young Australians for a lifetime of healthy finances. BeApt is a primarily digital financial planning tool for young people who are ready to live for today and plan for tomorrow.

The subscription service includes cash flow and property planning, superannuation and wealth protection advice, as well as advice and support to build a future-focused investment portfolio.

Younger clients can set and monitor their own cash flow and savings goals via the app, as well as invest in areas they understand and believe in.

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

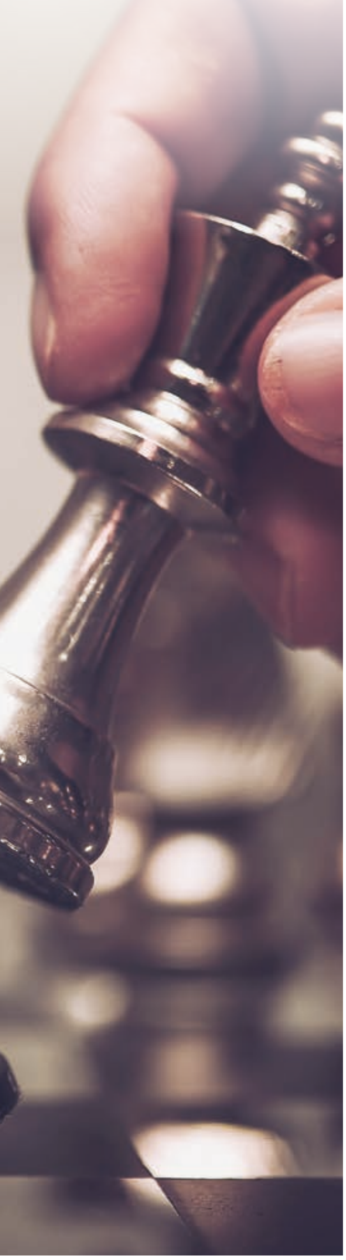
Email *editor@paperandspark.com.au* to register your interest.

Insight

FUTURE GAZING

5 SUCCESS DRIVERS FOR THE PRACTICE OF THE FUTURE

The path of change for the profession is inevitable but to what extent planning practices approach this change, will determine their level of success in the future, says Jason Andriessen CFP®.



These are unprecedented times for financial planners. Already faced with the challenge of understanding and then meeting FASEA's higher education standards, the Royal Commission's final report is bearing down.

What's clear is that previously successful business models will need to change. The good news? CoreData has launched a research program that seeks to understand the changing landscape, and the characteristics required of financial planning practices for future success.

We call the research program Yucatan, after the peninsula in Mexico. Around 66 million years ago, a comet crashed there, creating an enormous crater and throwing up soot and dust that completely changed the earth's atmosphere. Theory has it that it's what killed off the dinosaurs.

But not every living creature became extinct. There were those that responded to the stress and adapted. In fact, some creatures were able to thrive in the new environment.

Let's apply the same analogy. If this is an extinction event for some advisers, what are the characteristics of those who will survive and flourish?

Our research has identified five traits of financial planning practices that will thrive into the future:

1. professional community support;
2. clearly articulated business plans;
3. adaptability;
4. client obsession; and
5. willingness to let go of the past.

Let's take a look at all five.

1 PROFESSIONAL COMMUNITY SUPPORT

The practice of the future will comprise a community of two or more advisers; professionals who support each other in servicing their clients and hold each other accountable. It's becoming clear that clients and regulators expect advisers to not just be proactive, but to be available to clients on their terms to provide the services they're paying for. That means being on duty every business day, 52 weeks a year.

Now, we know that's not always possible. But your professional community within your practice will be there to service your clients when you're not.

And then there's other professionals who won't just help you service your clients, but they can peer review your advice and discuss your ethical dilemmas with you. These are people who call out your self-interest and help you make decisions that improve the long-term prospects of your career.

2 CLEARLY ARTICULATED BUSINESS PLANS

According to CoreData research, fewer than three in 10 advice practices have a robust written business plan that sets out a growth pathway. The practice of the future will set out its growth plans over the next one, three and five years, clearly document them and share them widely with members of the team.

And successful practices will have management information systems that measure performance against the key drivers of growth. Currently, more than three in four advice firms are relying most heavily on the crudest of all business measures to track their growth: revenue.

3 ADAPTABILITY

If your practice is standing still during periods of major upheaval, it's actually going backwards. According to paleontologist Stephen Jay Gould, the reality of change is punctuated. Organisms don't evolve gradually over time in a linear fashion. They change during times of stress, and their success depends on how they manage it.

Now is the time to adapt to a changing environment. A financial planning practice can innovate in three ways: through technological leaps; process leaps; and behavioural leaps.

The fact is, not all innovation is good, and we know that most major business transformations fail. In fact, without behavioural change, process innovation fails. In turn, without embedding process changes, technological changes fail. You need to innovate in all three ways, and that's really hard.

With more than 600 fintechs in Australia today, it can be tempting to buy the next bright, shiny toy and start applying it to your practice. But technological innovation needs to be purposeful and anchored in a clear client need.

According to CoreData's annual Mystery Shopping research of financial advisers, just one in four planners are using technology in a visible way with their clients. Those planners are using software to help clients understand scenarios, alternatives and trade-offs, and to explain ideas. They're also using technology to collect data more efficiently, which clients value.

In fact, planners who use technology within their advice process have higher levels of client commitment, understanding, intention to implement and propensity to recommend.

Technological change also needs to be supported by process innovation. Again, processes need to be anchored in client preferences and needs.

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Organisms don't evolve gradually over time in a linear fashion. They change during times of stress, and their success depends on how they manage it.

– Jason Andriessen

The fundamentals of successful advice processes are clear. CoreData's mystery shopping research indicated that those planners with the highest client implementation rates did five things well:

- the practice answered the phone within six rings;
- an appointment was scheduled within 10 business days;
- a fact find questionnaire was emailed to the client in preparation for the first interview (and responses digested by the planner);
- a second interview was scheduled at the first meeting; and
- the planner confirmed execution within three days of agreement.

4 CLIENT OBSESSION

The Royal Commission has been seeking to unearth misconduct and behaviour that has fallen below community standards. But community standards change, and they reflect the values of the individuals within that community at a point in time.

Over the past 10 years, we've seen a trend of everyday people becoming more and more cognisant of their personal rights. An outworking of that is the rise of the consumer, where everyone has a voice,

everyone is a publisher and everyone has the right to feel outraged about whatever they like.

And when it comes to financial services, there's plenty to feel outraged about.

The fact is the financial system is stacked against everyday consumers. A portion of their personal income is deferred by law, only to be released to them as a lump sum when they retire. They're faced with extraordinary complexity and are seeking guidance from someone they can trust to cut through and help them make good decisions.

The trouble is, there are other players in the system, each better informed and looking out for their own self-interests: licensees, platform providers, product providers, asset managers, and even custodians. And who benefits from all this complexity? Well, as we have seen from the Royal Commission hearings, it's often not the client.

It's the adviser who is tasked with championing the needs of the client. That's why the practice of the future will be obsessed with serving their clients. They'll be much better at listening to them, gauging the client experience along the end-to-end advice process, seeking to understand paint points and moments of truth.

Former CEO and executive chairman of IBM and author of *Who Says Elephants Can't Dance*, Lou Gerstner, said it best: "Everyone at IBM was trying to satisfy an audience – the board, their boss, the shareholders. You know who I wanted to satisfy? The customer."

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But this will require behavioural change for financial planners. Currently, only one in three advisers undertake client surveys at all. And even when they do, most do it too infrequently; annually or even less often than that.

5 WILLING TO LET GO OF THE PAST

Advice practices that will flourish in the new environment will unshackle themselves from tried and true activities that brought success in the past.

Donald Sull, in his excellent Harvard Business Review article *Why Good Companies Go Bad*, identified the common trap of 'active inertia'. This is where businesses recognise that they need to act, but they continue their previous trajectory, following established patterns of behaviour. They're stuck in the modes of thinking and working that brought success in the past.

Rather than protect a previously successful model, and replicate business drivers by complying with the letter of the law, it's much healthier to embrace the policy position, and seek to meet the spirit of legislation and regulations.

For financial planning practices, one example of this is the revenue model.

It's clear from the Royal Commission's interim report that income earned today from advice provided in the past, is bad practice and out of step with community expectations. Accordingly, pre-FoFA grandfathered commissions are being questioned and they will likely cease or be phased out.

If they haven't already done so, successful financial planning businesses will need to immediately reduce any reliance on grandfathered commissions. Income sources must be agreed by the client, transparently collected, and relate to the active provision of advice and service.

When the comet smashed into Earth on that day 66 million years ago, it set in train a series of events with consequences that couldn't have been easily predicted, but with the benefit of hindsight now, seem inevitable.

Its impact ignited oil-rich sediment – a freak occurrence that produced enough particulate matter to significantly cool the climate globally. It marked the beginning of the end for the cold-blooded dinosaurs that saw their food sources decimated and as a result, eventually went extinct.

In a decade's time from now, when a new generation of financial planning advice practices are flourishing, when individuals are flocking to financial advisers and their services in droves, when public trust and confidence in advice and advisers is scaling record heights and when advisers are acknowledged as professionals in the genuine sense of the word, the path that led us there will seem just as inevitable.

Unlike the dinosaurs, however, we have an unprecedented opportunity to plan and prepare for the future we want, instead of being at the mercy of forces we can't control.

Jason Andriessen CFP® is managing director of CoreData Research.

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WE'RE FOR LIFE

Insight

PASSING THE BATON

After four years as FPA Chair, **Neil Kendall CFP®** steps down, but not before handing over the baton to the incoming chair, **Marisa Broome CFP®**. They reflect on the work done and the journey ahead for the profession. Jayson Forrest reports.

Looking back at his eight years on the FPA Board, Neil Kendall CFP® is justifiably proud of the achievements the FPA has made, most notably moving down the path of professionalism by lifting the educational and professional standards of financial planners in Australia.

It's been a challenging gig for the Brisbane-based planner, who after eight years on the Board with the past four years spent as FPA Chair, relinquishes his position on the Board at this year's AGM in November. But it's been a gig that Neil has revelled in, with his calming influence tempering tumultuous times for the profession.

Reflecting back over the past eight years, Neil says his motivation for joining the Board in 2010 and then to step into the Chair's role in 2015, was borne out of a realisation of just how much work the FPA was doing for the profession.

"It was clear to me then, as it is now, that if I wanted to change the financial planning environment for the better, the FPA was the mechanism in which to do that," Neil says.

"I've always held the view that if I can personally change the lives of 100 clients who I deal with or 1,000 clients' lives through my practice, then through the FPA, we can change the lives of millions of Australians through financial planning. So, joining the FPA Board was my opportunity to help improve financial planning for all Australians."

> *The message to the community from Government is that financial planners are trustworthy. That's a really positive step forward, and something the FPA has been working on for over 20 years. – Neil Kendall*

It's a view shared by FPA Board member and incoming Chair, Marisa Broome CFP®.

"It was a simple decision to join the Board in 2015. I wanted to give back to the profession that I have benefited from and a profession that I am proud to be part of," Marisa says.

In fact, Marisa has been involved with the FPA from the get-go. She fondly recalls attending the first FPA conference in Hobart and since then, she has served stints on various FPA committees, including a long association with the FPA Sydney Chapter.

However, Marisa confesses to having been asked to run for the FPA Board for a number of years, but running a successful business at the same time as having children at school, she didn't think it was appropriate to do so until she was able to fully commit to the position.

"So, the year my last child finished school, I had the time that was necessary for being on the Board. I was successfully elected to

the Board and re-elected last year for a second term."

But what motivated Marisa to nominate for Chair of the FPA?

"I was asked to consider the role of FPA Chair. I knew this was an enormous commitment, so after a lot of thought, I believed I had the right skill set and vision to lead the Board. And more importantly, represent our members in the way that I would like to be represented as a member."

Not only does Marisa take on the role with the full support of her fellow Board directors, but she reveals she has also been "in training" with Neil to ensure the baton of leadership is handed over smoothly.

"Neil has provided me with a great internship and I'm also fortunate to have an incredibly talented Board to be working with, which made my decision to take on the role, all the more easier," Marisa says. "I feel the responsibility of this position deeply but it just strengthens my desire to make a real difference."

LONG-TERM MILESTONES

Neil is quietly satisfied with the achievements the FPA and Board have been able to deliver to members over his eight year tenure, but when asked to pick some highlights, he is typically pragmatic in his response.

"As the FPA Chair, I haven't achieved anything. Instead, it's been the FPA in its entirety that has achieved things. I am only one tiny cog in a massive machine. The Chair and Board work through the FPA staff and membership to achieve outcomes."

However, when pressed, Neil does highlight a couple of achievements over the past four years that he believes are particularly noteworthy for the FPA, including ticking off on a couple of long-term milestones. At the top of the list is enshrining the terms 'financial planner' and 'financial adviser' in law.

"By enshrining these terms in law, it means they can only be used if a planner is qualified and licensed. That's something that has been on the FPA's agenda for 20 years. So, this is a huge step forward for the profession," he says.

The realisation of another long-term goal was achieved in September this year, when the federal Attorney General approved financial planners as signatories for statutory declarations. The significance of the decision is not lost on Neil, who adds: "This is the Government saying to consumers that financial planners are people you can trust."

"This decision to secure recognition of planners as an additional category of people who are authorised to witness a Commonwealth statutory declaration, is a massive step forward for the profession. The decision is in part due to having those terms enshrined in law, as well as having defined education standards and code monitoring requirements.

"The message to the community from Government is that financial planners are trustworthy. That's a really positive step forward, and something the FPA has been working on for over 20 years."

The decision is a particularly important one for Marisa, who concedes that the issue of 'trust in financial advice' has taken a hit over recent years.

"But I also see the issue of 'trust' as being an opportunity we can seize and build on through the new code monitoring environment planners will be working under. And the fact that the Government has approved planners to witness statutory declarations, shows that the Government trusts the profession, which will help to rebuild trust in consumers," she says.

DEVIL IN THE DETAIL

But while the profession has made some significant gains over the past four years, as Neil vacates his role as Chair, he believes FASEA and potentially stronger regulation for the profession will provide both challenges and opportunities for the profession.

"FASEA is quite interesting," he says. "For most FPA members, I don't

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What excites me most about our profession is the fact that we are a profession. I am a very proud CFP® practitioner and I wear that pin with pride. – Marisa Broome

expect FASEA to be a big change. FPA practitioner membership now requires a degree, it requires code monitoring, there is an exam linked to the CFP® Certification Program, and there are ongoing CPD requirements. So, FASEA is effectively going to take the FPA philosophy about good advice, to all financial planners - not just FPA practitioner members.

"For most members, while the effects of FASEA may be inconvenient, they will be relatively minor. In fact, the overall effect will be positive in terms of lifting the minimum standard for all financial planners – and that's not a bad thing."

But like all things, the devil will be in the detail, and in terms of FASEA's final recommendations for the profession, both Neil and Marisa remain hopeful that commonsense will prevail in recognising existing study completed by planners, compared to those who haven't completed any.

And while Marisa agrees there are immediate challenges around helping members meet the FASEA requirements and the outcomes of the Royal Commission, she believes the FPA's key strategies haven't altered.

"Our fundamental goal is to have more Australians receive quality financial advice that makes a meaningful difference in their lives. That message underpins everything the Board does, and everything that Dante De Gori CFP® and his wonderful team do."

Marisa says this will be achieved in three ways: through professional standards; through quality education; and through consumer engagement and education.

"The three of these are linked. Together, they will help us rebuild trust in the advice process and encourage more people to seek advice. For many years now, these three pillars have been the central part of the FPA's strategy."

It's a strategy supported by Neil, who remains characteristically upbeat about the future for the FPA and the profession.

"I actually think the future looks really good for the profession," he says. "Potentially, gaining entry into the profession will become more restricted, which means there may be less financial planners practising. So, those planners who are prepared to meet the new standards are going to be in a good position.

"Looking forward, I expect there to be less problems for the profession. So, it will be a future of less competition and more opportunity for the profession."

Marisa shares Neil's excitement for the future.

"What excites me most about our profession is the fact that we are a profession. I am a very proud CFP® practitioner and I wear that pin with pride. I know I make a difference to the lives of my clients and I know our members do as well.

"I want more Australians to seek and receive advice that will make a difference to their lives."

THE JOURNEY CONTINUES

When asked to talk about his legacy as Chair of the FPA, Neil is typically uncomfortable. It's not a subject he enjoys addressing.

"I'm happy to say that I leave the Board and my role as Chair without any unfinished business," he says. And the reason for that?

"Well, it's because this is not the end of our journey. I'm merely passing over the baton to the next Chair. The fact that I was the Chair for four years, wasn't the start of something. And the fact that I am no longer the Chair, isn't the end of something. It's the continuation of our journey.

"The FPA will simply continue along its pathway. There is always going to be work required to improve financial planning for consumers, but I don't see this as being the beginning or the end of that process. Instead, I see it as a continuation of the good work that we're doing."

But perhaps if there is one thing that Neil would like to be remembered for it's for the consistency of his message that he has delivered to members over the past four years: *What we do as planners makes a meaningful and positive difference in our clients' lives.*

"That is the standard we should always be testing our advice against," he says.

So, what advice does Neil have for the incoming chair?

"Absolutely none," he says. "Marisa has been an active FPA Board member for the last four years, so she is on the FPA journey and knows where we are heading as a profession. Marisa knows what she is doing and doesn't need my advice."

It's a sentiment that monetarily catches Marisa off guard: "I'm committed to the journey ahead of us and all the challenges facing the profession. In fact, when haven't we had change? We have always adapted to change and we will continue to do so.

"Team FPA is exceptional. From the volunteer work that our members do on the various committees and consultative groups, to the work of the Board, and the tireless work done by the staff at the FPA; through all this hard work, we're able to deal with and embrace change."

TURNING CHALLENGES INTO OPPORTUNITIES

Under her stewardship, Marisa says the FPA will continue to focus on the three pillars of its strategy: strong professional standards; a focus on professional education; and engagement with consumers around quality advice.

"By doing so, this will enable us to reset the agenda and focus on consumers seeking quality financial advice, while at the same time, building a story centred on trust and the improved standards of FPA practitioner members. This message will be at the core of how we develop our responses, particularly in relation to consumer expectations of the profession.

"So, this is very much a team effort. I am incredibly proud and honoured to be the Chair, and I am most proud of the effort and commitment that so many within the profession demonstrate every day and the level of passion that goes with that."

In taking up the reins as Chair of the FPA, Marisa openly acknowledges that while challenges lay ahead for the profession, there are also opportunities.

"Undoubtedly, there is a question of trust with financial advice, but that's an opportunity for us to seize upon and build on through the new code monitoring environment we will be working under.

"I actually see more opportunity in that than challenge or threat, but I have always been up for a challenge!"

Passing the Chair's baton: Marisa Broome and Neil Kendall.

There is always going to be work required to improve financial planning for consumers, but I don't see this as being the beginning or the end of that process. Instead, I see it as a continuation of the good work that we're doing. – Neil Kendall

ACTION PLAN

THE NOW, LATER AND SOMETIME OF BUSINESS IMPROVEMENT

David Braithwaite says the key to learning from others, such as at conferences, is using your notes effectively to formulate an actionable 'to do' list.

David Braithwaite

I have been to a lot of conferences in my nearly 25 years of being a financial adviser. As a result, I have seen a great number of people presenting – and you never know what you'll get. There has been some outstanding speakers I will never forget, and some who were less than impressive.

But my point is this: Why do we go to so many conferences and listen to some speakers? Some might be there simply for the CPD hours. But during a conversation with a financial services consultant in the UK recently, she cited there is an innate fear within some financial advisers – the fear of missing out.

She said we are all looking for a lightbulb moment that revolutionises the way in which we work, that turns around our business.

She further added that the journey we are on as advisers is one where we all start as a very raw item, and over the years, our skills are honed by the people we mix with, ideas we hear and so on, to become the versions of ourselves that we are today.

I enjoy going to conferences to listen to tips and techniques that I can apply back in my business, which helps to develop careers, serve clients more effectively, and help me become a more successful financial adviser.

We also like to feel part of a group of people who are 'in it together'. In other words, a community, where the other attendees understand how we feel.

So, attending a conference and meeting our peers is great to do, but it's flawed. Let me explain.

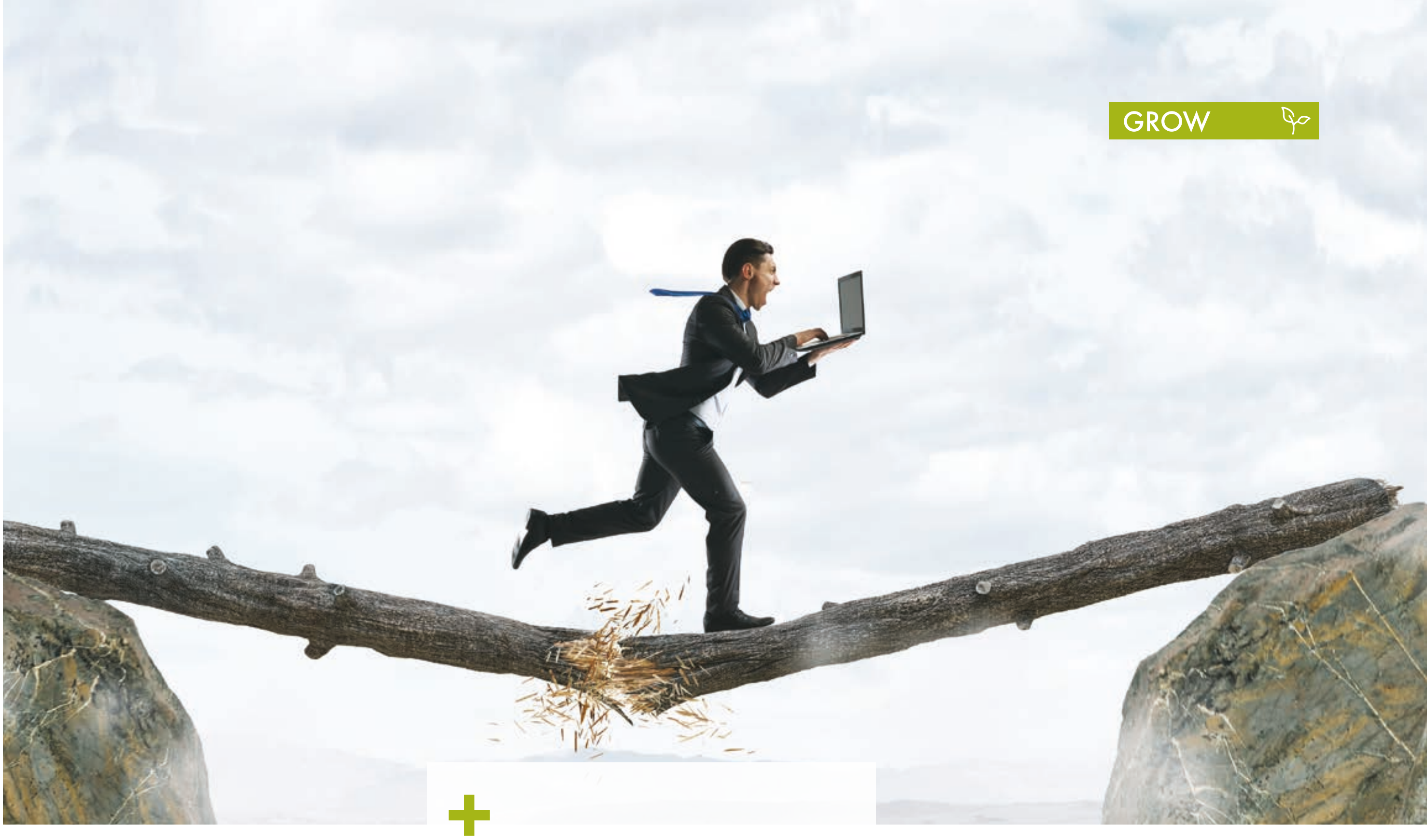
THE FEAR OBSTACLE

It's all very good attending conferences, making copious notes and discussing ideas with your friends and colleagues afterwards, but what really counts is what you do with that information once you leave that environment and head back to your busy office with clients, staff, phone calls and a diary that requires constant juggling.

I get it. It's hard. But if you want something bad enough, you'll find the time to make it happen. If not, you will find an excuse. But above all, there lies another obstacle - the one of fear.

Fear in our profession comes in many shapes and sizes: fear that we don't have the time to use new ideas; fear that we don't have the relevant expertise or money to implement the changes that we want to make; fear of doing something wrong and upsetting clients; and fear of already having enough on our plate and taking on more work.

It's hard to change. I get that. But luckily, the only person who will notice that we don't do something about what we've learned is ourselves. So, it's down to us to be accountable for making changes to our own practices and the way in which we serve our clients.



NOW, LATER, SOMETIME

Of course, it might be that we are perfectly happy where we are, and we don't want change, but then, why attend a conference?

All too often there is a disconnect between what we hear presented and the notes we make, and what we ultimately implement. The key is doing something with what we learn – whether it's fearful to do so or not. We all want change, but who actually wants to change?

I have something simple I do when I'm at a conference, which has made a huge difference to how I use the information I have heard while there. As I'm making notes, I have a separate page that is divided into three columns headed: **now**, **later** and **sometime**.

Still take notes as you would do. I always advocate using a journal style notebook and I have one specifically for conferences. I make my notes, and then in the front, I create an index. That way, if I know I want to refer back to a presentation I heard at a previous FPA Congress, I can look up that section page and jump right to it and find what I want.

What you then do is build up an amazing knowledge library of all your notes and collective wisdom,

The key to all of this is having an actionable to do list. Without that, rarely will anything get done.

which is all indexed and can build over time.

This saves all your notes being lost easily. Also, it means you can often read back through your notebook, which can jog your memory about something that, although not relevant to you at the time, is now actionable, or simply reminds you of something.

The key to using your notes effectively is all about a 'to do' list.

If I hear an idea I can use right away, turn to your columns and add it there – it goes into the 'now' column. This should be something you can immediately put in place, or a new way to explain something or just something you need to do – but do it now.

In the 'later' column, note something you could implement but it might take a bit more time to figure out. I would limit this to within three months.

Your last column of 'sometime' is for those ideas that are a little 'out there' but might work, but you aren't sure if it has any point yet to you or your business.

Then when you are back into your normal world, you can hit the ground running – you have your immediate 'to do' list, which is your 'now' column!

Then schedule in the time you need to attend to your 'later' list and whenever you can, reflect on the 'sometime' list, and don't be afraid to cross out things you have put on there. If it hasn't got legs, get rid of it.

The key to all of this is having an actionable to do list. Without that, rarely will anything get done.

Taking positive action also cures the fear I talked about. So, the quicker you get started, the faster you will see the benefits.

David Braithwaite is a Director and Principal financial adviser at Citrus Financial Management.

David will be delivering a workshop session titled, 'Change as a positive springboard to financial success', at the FPA Professionals Congress on Thursday 22 November.

IN THE COMMUNITY

PRO BONO: A HELPING HAND

Since June 2017, the FPA has been involved with the Cancer Council's Pro Bono Financial Planning Referral Service. **Kim Betts CFP®** and **Chris Craggs CFP®** share their insights on being involved in this important pro bono initiative.

1 WHAT MOTIVATED YOU TO BECOME INVOLVED IN THE CANCER COUNCIL'S PRO BONO PROGRAM?

KIM BETTS: I became involved in the Cancer Council program due to my own personal situation. My mother was diagnosed with cancer. I remember how difficult it was for her to deal with not only the emotional side of this disease, but then also having to make financial decisions. So, I was able to relate firsthand to this program

CHRIS CRAGGS: I have come to the point in my career where I am happy with the progress I have made. I can make more money, but to what end? I can take more time off, but I have plenty of time already. Or I can give some of my time to help out those whose life plans have not gone as they would have expected, through no fault of their own.

Ultimately, it was a fairly easy decision to help improve the lives of others who were battling cancer, which is the reason why I became involved in the Cancer Council's Pro Bono Financial Planning Referral Service.

2 HOW LONG HAVE YOU BEEN INVOLVED IN THIS PROGRAM?

KIM BETTS: I have been involved in the program for around 12 months.

CHRIS CRAGGS: My involvement with the program has been for just over one year.

Kim Betts CFP®

Position: Financial Adviser

Practice: Mine Super

Licensee: AUSCOAL Superannuation

Chris Craggs CFP®

Position: Principal

Practice: Argurion

Licensee: Argurion Finance Group

3 HOW MANY REFERRALS HAVE YOU RECEIVED?

KIM BETTS: I generally take one referral per month.

CHRIS CRAGGS: To date, I have received 15 referrals.

4 HOW IS THE PROGRAM MAKING A DIFFERENCE TO THE LIVES OF YOUR CLIENTS?

KIM BETTS: I believe the true benefit of this program is that, as a planner, you can assist your clients by removing some of their financial worries, enabling them to fight the battle that may be ahead of them.

And as planners, I believe we can also assist these clients by providing them with suggestions around options that they may not have even considered.

CHRIS CRAGGS: When these clients come to the office, they are fighting for their lives. All of their energy, and that of their family, is spent fighting. We take a little of that burden from them, help them get through the red tape and take care of some of their administration. This enables them to focus on their fight.

I have had high paying executives sit at my desk unable to complete a Centrelink form or an insurance claim form; not that the form is beyond their ability to complete, but they simply don't have the energy to do it. We provide this energy for them.

I have met some wonderful people over my period of time assisting in this program, and people are genuinely grateful for your assistance. There is simply nothing more satisfying than that as a financial planner. – Kim Betts

5 HOW HAS THE PROGRAM AFFECTED YOU PERSONALLY AND PROFESSIONALLY?

KIM BETTS: My involvement in the Cancer Council's Pro Bono program has enabled me to give something back to the community, while personally allowing me to feel that I'm making a difference to their lives.

Having to deal with some of the issues that you may not normally encounter in your day-to-day role as a planner, has also helped me grow on a professional level.

CHRIS CRAGGS: By participating in this pro bono program, it certainly reminds you of your own mortality, that's for sure.

We can help these clients with the financial planning aspect of their lives, but their health issues are outside my control. It still hurts when you hear that someone has been lost.

Personally, it has made me more aware that life is short; that bad things happen to good people. Regrettably, sometimes these bad things, which are out of our control, do happen and there's no good reason why. So, dealing with the emotional consequences of this can be challenging.

Professionally, it has made me more aware that wealth accumulation, over and above the required amount needed to live a comfortable life, is somewhat futile. At the end of the day, we leave it all behind.

6 WHAT ADVICE DO YOU HAVE FOR OTHER PLANNERS CONSIDERING PRO BONO PROGRAMS?

KIM BETTS: If you are looking to grow as an individual and have a strong sense of achievement, then I would recommend joining this program as a pro bono planner.

I have met some wonderful people over my period of time assisting in this program, and people are genuinely grateful for your assistance.

There is simply nothing more satisfying than that as a financial planner. In fact, it's what being a professional is all about.

CHRIS CRAGGS: If you feel blessed, share it. If you feel healthy and strong and capable, share it. It's that simple!

If you feel blessed, share it. If you feel healthy and strong and capable, share it. It's that simple! – Chris Craggs

About the Cancer Council Pro Bono Program

IN JUNE 2017, THE FPA BECAME INVOLVED WITH THE CANCER COUNCIL'S PRO BONO FINANCIAL PLANNING REFERRAL SERVICE.

This nationally structured referral program helps families affected by cancer, by connecting them with financial planners who can provide their services on a pro bono basis.

By facilitating the provision of these services, the program aims to contribute to the wellbeing of people affected by cancer by reducing stress and financial burden. FPA members are encouraged to join this program. By donating their time, planners can assist cancer patients and their families with a wide range of financial planning services on a pro bono basis.

These issues may include:

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

Register for the Cancer Council's Pro Bono Program at fpa.com.au via the FPA Community tab.

MENTORS MAKING A DIFFERENCE

Wayne Fenton AFP® is drawn to Teen Challenge Tasmania's mentoring program, which is helping young people break the cycle of abuse and addiction.

Making a difference: Wayne Fenton AFP®.

GRANT RECIPIENT: **Teen Challenge Tasmania**

GRANT AMOUNT: **$10,000**

ENDORSED BY: **Wayne Fenton AFP®**

FPA CHAPTER: **Tasmania**

Located in Launceston, Teen Challenge Tasmania (TCT) is a not-for-profit organisation that is part of the global, Teen Challenge network. Teen Challenge specialises in residential rehabilitation for young people with addictions and life controlling issues. The Teen Challenge network operates in over 128 countries, with more than 25,000 people graduating from Teen Challenge centres every year.

According to TCT executive director, Tanya Cavanagh, each Teen Challenge centre outside of the USA, is operationally and financially independent, although linked by a common purpose: to 'put hope within reach of every addict'.

"TCT's vision is to see a world free from addiction, with future generations being successful and contributing members of society, who steer others away from the same path they took," Tanya says.

Tanya concedes that TCT is a little different to many Teen Challenges around the world, as it currently does not have a rehabilitation centre. However, she says they are working hard to open, Home of Hope. This is a residential rehabilitation centre, offering support to women with children in addiction, which will be the first of its kind in Tasmania.

"So, whilst we work to open this much needed centre, we continue to work towards our overall vision. As such, we are incredibly passionate about drug abuse prevention and diverting our next generations away from the paths that lead to addiction," Tanya says.

TCT is doing this through two initiatives:

- **#NotEvenOnce® Education Projects –** Empowering future generations against alcohol and substance abuse to protect their future potential; and
- **Connections Mentoring Program –** Encouraging life ready young people through positive role modelling relationships.

"We have seen amazing impacts and results from both projects that have originated from Tasmania. The value these projects provide to the next generation extend well beyond the shores of Tasmania, in our overall vision of achieving 'a world free of addiction'," Tanya says.

INSPIRATIONAL WORK

TCT's work inspired Wayne Fenton AFP®, an adviser from Elders Financial Planning, to endorse the charitable organisation's grant application for its Connections Mentoring Program.

"I had a phone call from Tanya requesting assistance with their Future2 grant nomination. Once I became aware of the fantastic work TCT does for our youth, I had no hesitation in nominating this organisation," Wayne says.

"The Connections Mentoring Program matches up mentors with at risk youth, who then provide these young people with the support and guidance that will ultimately help them make good decisions about their life going forward. The program works with young people who are struggling and helps to get them back on track while they are young. This will hopefully mean they will be able to continue with their education and move on to employment.

"Using volunteer mentors is a real strength of the program. The mentors take an active interest in the mentees and are non-judgemental, so I was delighted to endorse this program for the Future2 grant."

The Future2 Make the Difference! Grant judges agreed, awarding TCT with a $10,000 grant for its Connections Mentoring Program.

CONNECTIONS MENTORING PROGRAM

According to Tanya, the Connections Mentoring Program is making a significant difference in the lives of many students across Tasmania.

"Students with a dedicated one-on-one mentor show significant improvement in their relationships with their peers, family and friends," she says. "Students with a mentor have shown a significant change and transformation in their emotional resilience and a better ability to adapt to stressful situations, resulting in improved social and educational outcomes.

"A direct result of this for students means they then have higher levels of engagement with learning, recognise their own responsibilities and develop self-regulation."

The Future2 grant has enabled TCT to purchase much needed equipment to make life easier for its training team, volunteer mentors and the mentor support team. The grant has enabled TCT to expand its services to identify, reach, train and assist more mentors, enabling the organisation to expand its program into an additional four schools.

"The grant has allowed us to help more young people who are at risk, while also enabling us to provide extra equipment towards activities with the young people, thereby broadening their horizons for their future," Tanya says.

It's a view supported by Wayne: "The Future2 grant has assisted in the training of more mentors through the purchase of equipment, such as computers. These mentors are helping Tasmania's youth gain confidence, improve their behaviour, provide them with guidance in life, and give them self-belief. The feedback from various school principals is testament to the positive differences a mentor makes to these youths."

TICK OF APPROVAL

The Connections Mentoring Program is clearly working, with the Assistant Principal at Exeter High School, Paul Stevenson, seeing the positive impact on the lives of at risk young people.

"The mentoring program has shown immense benefits to the students who have been involved in the program. The fact they have a significant adult in their lives who regularly turns up to spend time with them and just 'be there' for them, is so important. The students look forward to the sessions each week, as it's a time where they have the absolute attention of the mentor, who quickly becomes a central figure in their lives," Paul says.

"The changes in students has been the most positive endorsement possible for the program. Confidence has grown in the students and the respect they have for their mentors has also seen improvements in the behaviours of students, as they now have another adult in their lives who takes an interest in them and they know that adult will be checking on how their education is going.

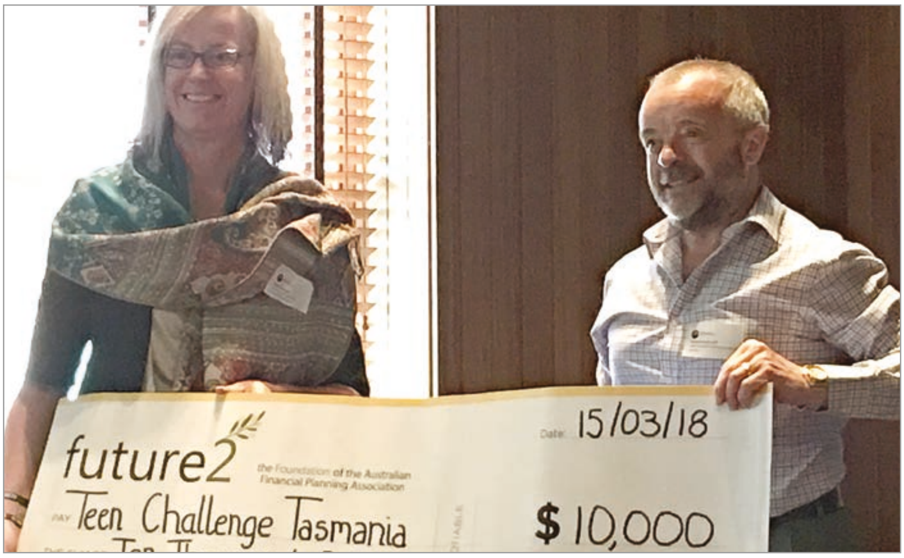
"Self-esteem has also been a major area of development, as the students have a mentor who cares enough about them to come into school once per week to support them in whatever way necessary."

The Connections Mentoring Program is a great initiative that is providing essential support to at risk young people in Tasmania.
– Wayne Fenton

MAKING A DIFFERENCE

The Future2 grant is helping TCT connect more young people in need with a mentor and through this relationship, build greater resilience within these young Australians.

"The Connections Mentoring Program is a great initiative that is providing essential support to at risk young people in Tasmania," Wayne says. "What TCT has already achieved working with youth is simply amazing. And the focus on disadvantage communities and young people is a real highlight of this not-for-profit organisation."



The Future2 grant is making a real difference to Tasmania's youth in need.

CPD MONTHLY

POOLED LIFETIME INCOME STREAMS

John Perri

AMP

This article is worth
0.5 CPD hours

FPA Dimension
Critical Thinking

ASIC Knowledge Area
Financial planning

INCLUDES:

- Pooled Lifetime Income Stream
- Proposed means testing
- Proposed assets test
- Declining capital access schedule

While changes to the tax and superannuation rules enabling a range of new and innovative lifetime income streams to be offered from 1 July 2017 were made some time ago, the final social security means testing position was only announced in the 2018 Federal Budget.

And, if legislated, this proposed new means testing will apply to pooled lifetime income streams commencing from 1 July 2019.

Importantly though, existing lifetime income streams commenced before 1 July 2019 will retain the current means tests beyond that date.

In this article, we outline the proposed changes, briefly compare them to the current rules, and offer some potential advice opportunities and considerations (once legislated) for determining whether it is beneficial for a client to commence a pooled lifetime income stream either before or after 1 July 2019.

WHAT IS A POOLED LIFETIME INCOME STREAM?

A pooled lifetime income stream is effectively one that 'pools' together people's savings to provide lifetime payments and protect against longevity risk (i.e. an individual's risk of outliving their savings). This is achieved as a portion of a person's investment in the pool will go to support payments to other members upon that person's death.

Pooled lifetime income streams include:

- Lifetime superannuation pensions;
- Lifetime annuities (both superannuation and ordinary money); and
- Deferred lifetime annuities and Group self-annuitised products.

Note: Term-certain pensions and annuities are not pooled lifetime income streams, as there is no pooling of assets with these income streams and the obligation to provide income payments ceases at the end of the term selected.

PROPOSED MEANS TESTING FROM 1 JULY 2019

These proposals will **only** apply to pooled lifetime income streams commencing on or after 1 July 2019. (See Table 1.)

The proposals will **not** impact the following lifetime income streams:

- Lifetime income streams commenced prior to 1 July 2019. These will be grandfathered and retain the current means test rules.
- New or existing defined benefit lifetime income streams (regardless of start date). These will retain the current means test, with a maximum 10 per cent discount for income (subject to certain exclusions) and exemption from the assets test in most cases.

Example 1: Jim, 67, lifetime annuity

Jim, single and aged 67, has just retired on 1 June 2019. He owns his own home and has $250,000 in super. He has no other assets or income.

Let's compare the Age Pension payable if Jim uses his $250,000 to start a lifetime annuity on either 30 June 2019 (current rules) or 1 July 2019 (proposed rules). (See Table 2.)

Let's assume that:

- The annuity payment rate is 4.7 per cent per annum or $11,750 per annum, with no indexation;
- Current social security non-assessable portion (NAP) is $14,188 per annum, based on his purchase price of $250,000 divided by his life expectancy of 17.62 years; and
- Age Pension rates and thresholds are as at 1 July 2018.

In this example, more income will be counted under the proposed test than under the current test.

Table 1 - Means testing of pooled lifetime income streams

Current Income Test	Proposed Income Test from 1 July 2019
Pension/annuity payment less non-assessable portion (NAP*) is counted as income. ***NAP = (Purchase Price – Commutations) / Relevant number^**	• **Immediately paying lifetime income streams:** - 60 per cent of all payments from pooled lifetime income streams will be counted as income. • **Deferred lifetime annuities:** - No income counted in deferral phase. - 60 per cent of income payments counted once deferral phase ends and income payments commence.

^In the case of a lifetime income stream, the relevant number will be equal to the longest life expectancy at commencement.

Under the current rules, Jim's NAP will always be greater than the annuity payment, and hence nothing is counted under the income test. However, under the proposed rules, 60 per cent of annuity payments will be counted.

In this scenario, Jim would receive a higher amount of Age Pension for the first 13 years, if he commenced the annuity on 30 June 2019 under the current rules, compared to starting it one day later on 1 July 2019 under the proposed rules. From year 13, the indexation of the Centrelink income test threshold ensures that both options receive the same Age Pension thereafter.

Example 2: Beryl, 67, deferred lifetime annuity commencing at age 80

Beryl retires on 1 July 2019 at age 67. She owns her own home and has $400,000 in super (no other assets or income). She chooses to place $60,000 on that date into a deferred lifetime annuity, with payments to commence once she reaches age 80.

Whilst in deferral phase from age 60 to age 79, no income is counted from her investment in the deferred lifetime annuity for Age Pension purposes (though some amount will be counted under the assets test).

Upon turning age 80, this annuity will commence to pay an income, and thereafter, 60 per cent of annuity payments will be counted under the income test.

PROPOSED ASSETS TEST

The proposed assets test applied will depend on whether the pooled lifetime income stream complies with the SIS 'declining capital access schedule' (DCAS) requirements. (See Table 3.)

The DCAS requirements limit the proportion of the initial purchase price that may be returned as a surrender value (i.e. the lump sum available if a person commutes the product) or paid as a death benefit.

It is effectively a restriction on commutation and is based on a declining straight-line basis over the primary beneficiary's life expectancy (or an eligible reversionary beneficiary's life expectancy in certain circumstances).

The full purchase price may be paid as a commutation amount, if the income stream is commuted:

- within 14 days of commencing the income stream; or
- on the death of a beneficiary within the first half of the life expectancy period of the primary beneficiary.

Example 3: Wendy, 70, lifetime annuity, which meets declining capital access schedule

Wendy turns 70 on 1 August 2019 and purchases a lifetime annuity of $100,000.

Her annuity contract allows voluntary commutation:

- within 14 days of purchase – the full amount of the purchase price; or
- upon her death within her life expectancy (i.e. the first 17.8 years). In the case of death, the contract also allows the full amount of the purchase price to be payable within the first half of Wendy's life expectancy (i.e. the first 8.9 years) and complies with the restricted amount payable should death occur thereafter (with no amount payable should this occur after the end of her life expectancy).

This annuity complies with the DCAS, and hence:

- 60 per cent of the nominal purchase price (i.e. $60,000) is counted as an asset from age 70 to age 84; and
- 30 per cent of the nominal purchase price (i.e. $30,000) is counted thereafter.

If Wendy was aged 80 at the time of purchase:

Continued overleaf

Table 2 - Analysis

	Current Income Test	Proposed Income Test
Annuity payment first year	$11,750	$11,750
Less NAP	($14,188)	N/A
Less proposed income test discount (40%)	N/A	($4,700)
Income counted	Nil	**$7,050**
Age Pension first year	**$23,598**	**$22,309**
Difference compared to current		**-$1,289**

LEARN

Table 3 - Proposed Assets Test

Current Assets Test	Proposed Assets Test from 1 July 2019
Declining asset value counted based on:	**Complys with DCAS:** • 60 per cent of nominal purchase price counted to age 84 (or a minimum of 5 years), and 30 per cent of nominal purchase price thereafter for life.
Purchase price – **(Purchase Price less Residual Capital Value / Relevant number) X Term elapsed**	**Does not comply with DCAS:** **Greater of:** • 60 per cent of nominal purchase price counted to age 84 (or a minimum of 5 years), and 30 per cent of nominal purchase price thereafter for life; or • Surrender value if voluntarily commuted; or • Highest death benefit payable.

Table 4 - Analysis

	Current Assets Test	Proposed Assets Test
ABP, lifestyle and bank assets	$740,000	$740,000
Annuity purchase price	$120,000	$120,000
Less proposed asset discount (40%)	N/A	($48,000)
Assets counted first year	**$860,000**	**$812,000**
Age Pension first year (combined)	**Nil**	**$2,462**

- 60 per cent of the nominal purchase price is counted as an asset from age 80 to age 85, as there is a requirement to apply this percentage for a minimum of five years; and
- 30 per cent of the nominal purchase price is counted thereafter from age 86 for life.

Example 4: Mario, 70, lifetime annuity, which does not meet declining capital access schedule.

Mario turns 70 on 1 October 2019 and purchases a lifetime annuity of $200,000. The annuity contract allows voluntary commutation in the following circumstances:

- Within 14 days of the purchase – 100 per cent of purchase price;
- At any time up to the end of 15 years – with the maximum of 100 per cent of the purchase price available at the end of year 15; or
- Upon his death within his life expectancy (i.e. the first 15.31 years) – up to 100 per cent of the purchase price.

This annuity will **not** comply with the DCAS, as the amounts available on voluntary commutation outside the first 14 days and upon death exceed the maximum that may be payable under this requirement.

Accordingly, the amount counted under the assets test for his life expectancy period of 15.31 years is the full $200,000 payable upon death, as it is greater than the:

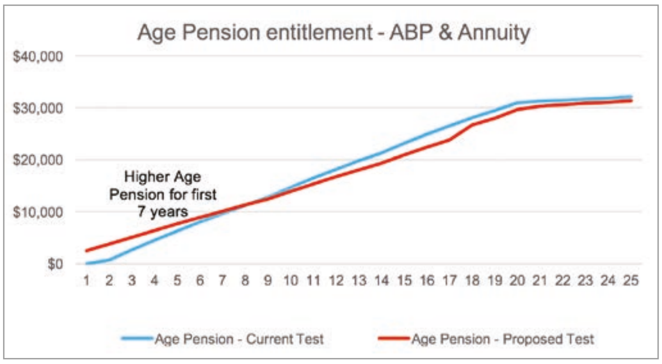
- surrender value from voluntary commutation; and
- 60 per cent of the nominal purchase price (to age 84 and 30 per cent thereafter).

Post-life expectancy, 30 per cent of the nominal purchase price is then counted as an asset.

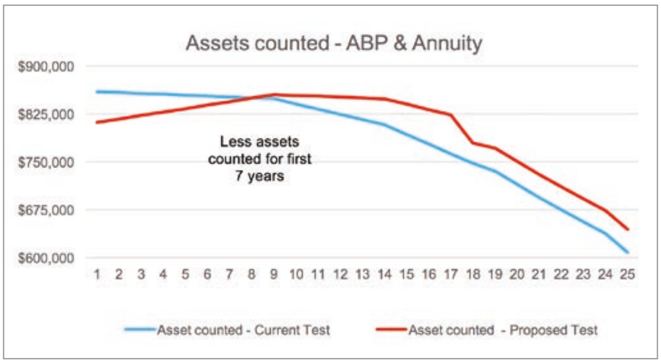
Example 5: Marco and Sharon, both aged 67

Marco and Sharon are both 67 years of age and have retired in June 2019. They own their own home and they have $780,000 in super between them, $50,000 in the bank and lifestyle assets of $30,000. With combined assets of $860,000, they are ineligible for the Age Pension in their first year of retirement.

Graph 1



Graph 2



QUESTIONS

To answer the following questions, go to the Learn tab at moneyandlife.com.au/professionals

1 Which of the following statements about pooled lifetime income streams post-1 July 2019 is incorrect?

a. A deferred lifetime annuity is a pooled lifetime income stream.
b. Defined benefit lifetime income streams are excluded from the definition of pooled lifetime income streams.
c. A term-certain annuity is a pooled lifetime income stream.
d. Pooled lifetime income streams provide lifetime payments and protect against longevity risk.

2 Which of the following statements about the proposed means testing of pooled lifetime income streams is correct?

a. Will only apply to pooled lifetime income streams commencing on or after 1 July 2019.
b. Does not apply to lifetime income streams that commenced before 1 July 2019.
c. Does not apply to defined benefit lifetime income streams, regardless of commencement date.
d. All the above.

3 Leanne is 70 and uses $150,000 to buy a lifetime annuity on 1 July 2019. This annuity meets the declining capital access schedule requirements. What is the proposed means testing treatment for Age Pension purposes?

a. Income test: 60 per cent of annuity payments as income for life. Asset test: 60 per cent of nominal purchase price as an asset for life.
b. Income test: 60 per cent of annuity payments as income for life. Asset test: 60 per cent of nominal purchase price as an asset to age 84, and 30 per cent of nominal purchase price as an asset thereafter for life.
c. Income test: 60 per cent of annuity payments as income for life. Asset test: The greater of 60 per cent of purchase price, surrender value or amount payable upon death as an asset for life.
d. Income test: 60 per cent of annuity payments as income to age 84, and 30 per cent of annuity payments as income thereafter. Asset test: 60 per cent of nominal purchase price as an asset for life.

4 Which of the following statements about the proposed means testing of deferred lifetime annuities is incorrect?

a. Deemed income is counted during the deferral phase, and no asset value is counted until the deferral phase ends.
b. No income is counted in the deferral phase, and 60 per cent of annuity payments is counted as income for life once the deferral phase ends.
c. 60 per cent of nominal purchase price of the deferred lifetime annuity is counted as an asset to age 84 (or a minimum of five years), and 30 per cent of nominal purchase price is counted thereafter for life.
d. None of the above.

5 Income test sensitive clients will generally be better off if they commence a lifetime pension from 1 July 2019, compared to commencing a lifetime pension before 1 July 2019.

a. True.
b. False.

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Let's compare the Age Pension that may be payable if Marco uses $120,000 to buy a lifetime annuity on either 30 June 2019 (current rules) or 1 July 2019 (proposed rules), with $660,000 being used to start an account based pension (ABP). (See Table 4.) Let's assume that:

- The annuity payment rate is 4.7 per cent per annum or $5,640 per annum, with no indexation or reversion;
- The annuity complies with the declining capital access schedule;
- The ABP earning rate is 5.8 per cent per annum, and the minimum pension is drawn; and
- Age Pension rates and thresholds are as at 1 July 2018.

The assets test is the dominant test here, and of interest is the potential improvement in the Age Pension payable in the first year, if the annuity is commenced under the proposed rules from 1 July 2019.

It is no surprise that by commencing the annuity under the proposed rules, fewer assets are counted due to the 40 per cent assets test discount, and they go from being ineligible for the Age Pension (current rules) to receiving a small Age Pension of $2,462 in the first year under the proposed rules, plus access to the Pensioner Concession Card.

So, on a one year assessment, the proposed rules appear favourable. However, to fully appreciate the impact, one needs to consider more than just the first year. Graphs 1 and 2 consider the assets counted, and the Age Pension payable (discounted to today's dollars at 3.3 per cent per annum), over the first 25 years under both the current and proposed

Continued overleaf

rules, to provide a more complete assessment of the impact of the proposed rules.

Marco and Sharon would receive a higher Age Pension under the proposed rules for the first seven years simply by starting the annuity on or after 1 July 2019, as fewer assets are counted in this period due to the 40 per cent discount.

However, from year eight and onwards, the Age Pension payable under the current rules then becomes higher compared to the proposed rules. This provides an interesting conundrum. Some clients may prefer to receive the higher amount initially and for the first seven years, on the basis that the laws may change again in the future, and therefore may wish to delay the commencement of the lifetime income stream until 1 July 2019. Other clients may prefer to lock in the current rules, which may provide a higher Age Pension down the track.

ADVICE OPPORTUNITIES

Once legislated, the following advice will assist in determining whether it may be beneficial to consider locking in the current means test rules by commencing a lifetime income stream before 1 July 2019, or to wait until after that date to apply the proposed rules.

Clients impacted by the income test

- Generally, more income will be counted under the proposed test than under the current rules.
- Consider other income counted before starting a lifetime income stream.
- For some clients, starting a lifetime income stream before 1 July 2019 will lock in the more favourable current income test.

Clients impacted by the assets test

- Generally, less assets will be counted for one to seven years under the proposed test than current rules, however, more will be counted after that.
- Immediate asset test discount of 40 per cent may assist clients whose assessable assets only slightly exceed the asset test cut out threshold to qualify for a small Age Pension entitlement and access to a Pensioner Concession Card.
- Defer the start of a lifetime income stream until after 1 July 2019 to benefit from an immediate 40 per cent asset test discount.

Note: Be wary with non-homeowner clients purchasing lifetime income streams after 1 July 2019. While these clients will receive the immediate asset test discount, subject to their other assessable assets and income, it could mean that the income test may become the dominant test. This may offset some of the benefits of investing into the lifetime income stream.

John Perri, Technical Strategy Manager, AMP.

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