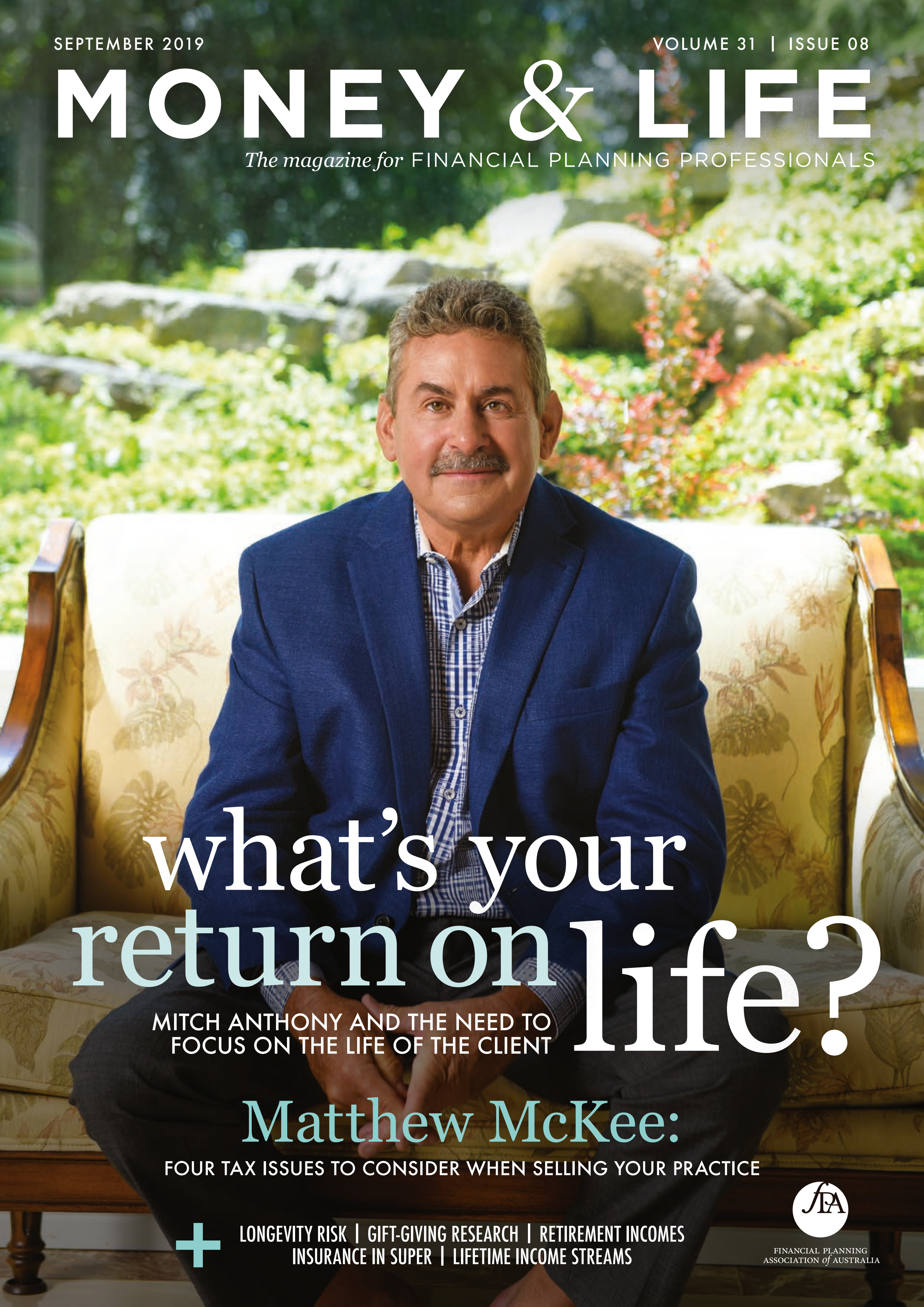

SEPTEMBER 2019 VOLUME 31 | ISSUE 08

MONEY & LIFE

The magazine for FINANCIAL PLANNING PROFESSIONALS

what's your return on life?

MITCH ANTHONY AND THE NEED TO FOCUS ON THE LIFE OF THE CLIENT

Matthew McKee:

FOUR TAX ISSUES TO CONSIDER WHEN SELLING YOUR PRACTICE

+ LONGEVITY RISK | GIFT-GIVING RESEARCH | RETIREMENT INCOMES
INSURANCE IN SUPER | LIFETIME INCOME STREAMS

FPA
FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA


In your clients' moment of need, we're here.
In 2018 alone, we paid $1.4 billion in claims.
Because we're here for your clients when they need it.

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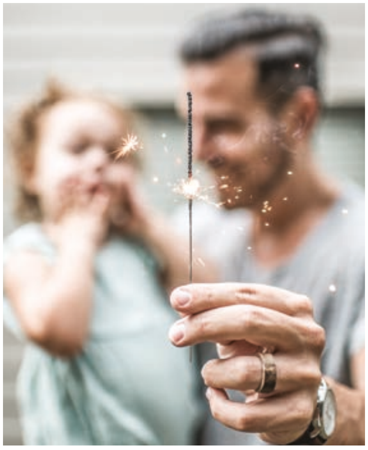

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FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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Circulation 13,600 as of June 2018

Focus

RETIREMENT IMPACTS

The scope and scale of impacts on retirement planning continues to escalate.

The reality of outliving savings is one of the biggest risks facing retirees today. In addition to longevity risk, there are significant macro trends affecting the retirement prospects and conditions for Australians broadly.

Our population continues to grow and the average life expectancy continues to rise. Both factors place significant pressure on eligibility and access to the Age Pension for Australians.

We are also on the verge of the largest intergenerational wealth transfer in history. Some estimates suggest Australia will see more than $3 trillion change hands over the next 10 to 20 years as the Baby Boomer generation pass on their wealth to others.

From a legislative perspective, the Government has shown its intention to implement the recommendations of the Productivity Commission's extensive review of Australia's retirement income system across superannuation, pensions and taxation. The Government will also be working on a review of retirement products to complement this.

The expertise and advice on retirement planning that planners provide is so important and much needed. Often it starts with helping clients to simply understand and face up to the realities of planning and living in retirement. For this reason, this issue of the magazine has a focus on retirement planning.

2019 FPA CONGRESS

We're creating another unforgettable and inspiring program for the 2019 FPA Professionals Congress to help you reignite your business.

We've got some of Australia's most innovative and diverse business leaders lined up to share how they have been challenged and adapted to change, and how they have excelled. I hope you can join us in Melbourne from 27-29 November. Head to fpacongress.com.au to register.

CONSUMER AWARENESS OF ADVICE

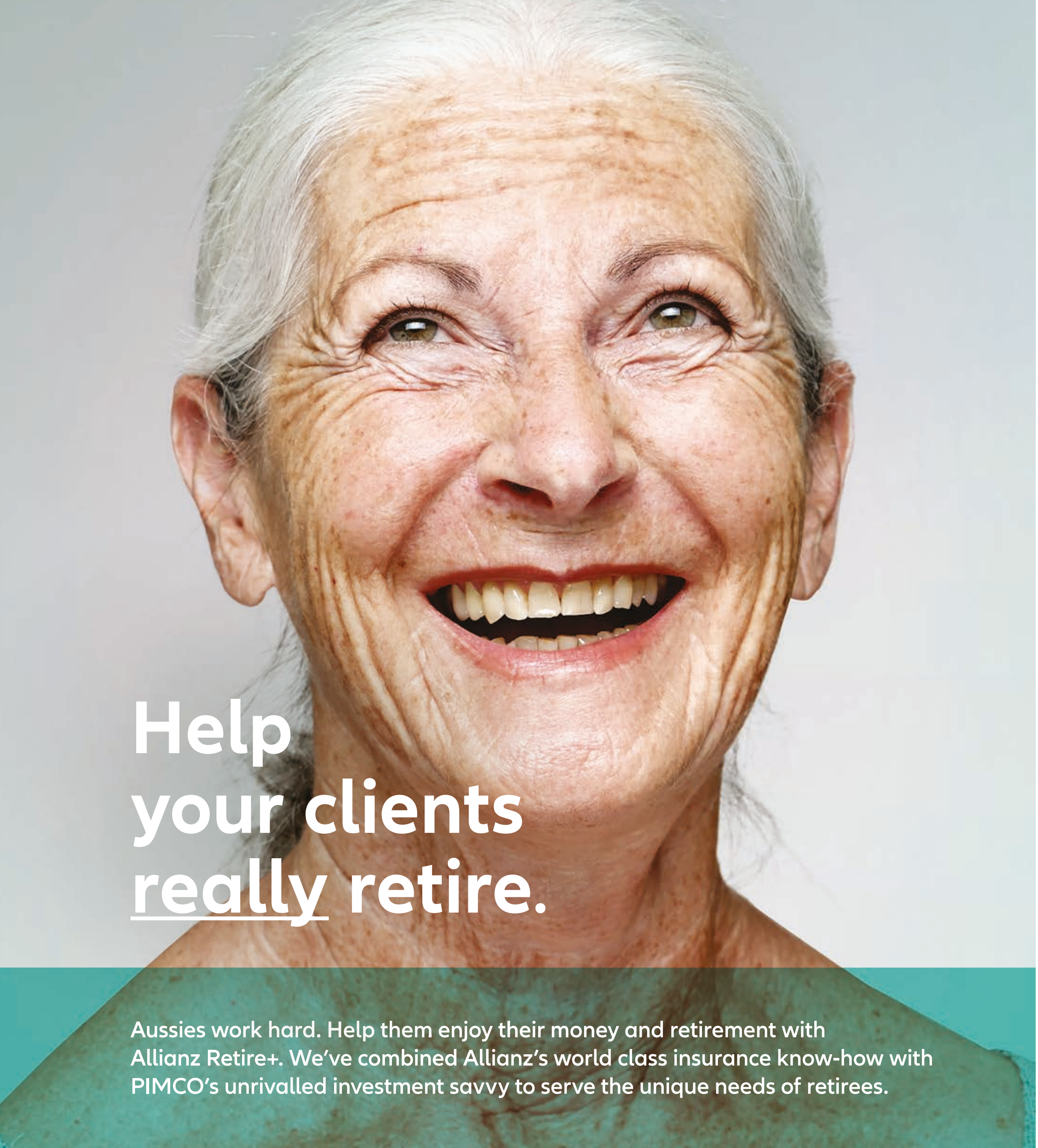
We celebrated our 19th consecutive Financial Planning Week last month to continue to raise awareness of the benefits of financial planning. Our campaign shone the spotlight on the amount of money Australians spend on gift-giving for family, friends and even pets!

Our new FPA *Gifts that Give* research report was released to mark the week and showed there's literally billions of dollars of household spend that is not budgeted for by nearly three in four Australians. This indicates an important opportunity to increase our nation's financial literacy and awareness of the benefits of financial planning. Read more on page 8.

We're on the home stretch to World Financial Planning Day, which is happening on 2 October. This sees a coming together of the global community of professional financial planning bodies, representing over 181,000 CERTIFIED FINANCIAL PLANNER® professionals, to raise awareness of the value of advice.

Dante De Gori CFP®, CEO

Follow Dante on Twitter @ddegori10



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News

NEW DIRECTORS APPOINTED TO FUTURE2 BOARD

Three new appointments have been made to the Future2 Foundation Board of Directors: Julie Berry CFP® FFPA Life, Hugh Humphrey and Olivia Maragna CFP®.

Future2 is the charitable foundation of the financial planning profession in Australia. Through its annual Future2 Make the Difference! Grants program, Future2 supports young Australians experiencing social, financial or physical hardship. Since its inception 11 years ago, more than $1 million has been contributed by Future2 to benefit disadvantaged young Australians.

Commenting on the new appointments, Future2 Chair, Petra Churcher AFP® said the Board had an ambitious target to increase its distribution of grants to $200,000 in 2019.

"We would like to see this annual amount double to $400,000 per annum," Churcher said. "It's an ambitious target, but the experience that Julie, Hugh and Olivia bring across a wide range of areas will be an asset to the Future2 Board and our collective drive to make a positive impact to families and young people facing difficult circumstances."

Ms Julie Berry CFP® FFPA Life is a director of the Tax Practitioners Board (TPB) and Chair of 360 Financial Advantage. She has served as both the Chair and board member of the FPA and Chair and Board member of the Institute of Financial Advisers in New Zealand.

Hugh Humphrey is a senior executive in the financial services industry, with a diverse background in management consulting and telecommunications. He has been on the Board of The Infants' Home for almost five years.

Olivia Maragna CFP® is Chief Executive of Aspire Retire. She is a well-recognised finance commentator and advocate for the financial planning profession. She is a finance columnist for several national newspapers and has a regular finance segment on ABC radio.

The Future2 Board is chaired by Petra Churcher AFP®. Other Board members include: Peter Bobbin, Patrick Canion CFP®, Dante De Gori CFP®, Anne Graham CFP®, Alison Henderson CFP®, Joseph Hoe CFP® and Dr Michael Neary.

FPA WARNS AGAINST RUSH TO BAN COMMISSIONS

Consumers could be the ones to miss out with the Government rushing its bill to end the grandfathering of commissions on investment products, warns the FPA.

While the FPA supports the phasing-out of commissions on investment products as recommended by the Hayne Royal Commission, the 1 August bill introduced by the Government provides no additional details on how this will be done to ensure consumers benefit from the change.

"Removing commissions must result in a genuine reduction in product fees or the rebating of the commissions to consumers, and we haven't seen details of how the Government expects this will work," says FPA CEO, Dante De Gori CFP®.

The FPA argues that just because a planner stops receiving commissions, it doesn't mean the consumer stops paying them through their investment fees. The cost of the commission is embedded in the fees, which is why the rebating and monitoring arrangements are so important.

Retirees could potentially lose even more by giving up favourable tax and pension treatments on their existing investments, if they are forced to move to new investment products, with the bill making no provision to prevent this impact.

"We are disappointed the bill allows only 17 months to complete a change that the FPA has recommended could take up to three years if the Government is to avoid unintended consequences for consumers, and the financial services ecosystem," De Gori said.

"More than 50 per cent of FPA members have already made the transition and derive no revenue from commissions on investment and superannuation products. So, it's not about whether our members are willing, they are, it's about making sure the transition is done carefully and diligently to protect the interests of everyone, especially consumers."

The FPA continues to urge the Government to provide a full three-year transition period and release further details of the proposed rebating and monitoring scheme, so they can be examined by the industry.

The FPA congratulates the following members who have been admitted as

CERTIFIED FINANCIAL PLANNER® PRACTITIONERS

NSW

Rovena Andruskevica CFP®
The Lunar Group

Rachael Arnold CFP®
Profile Financial Services

Matthew Bell CFP®
StatePlus

Matthew Bineth CFP®
StatePlus

Jade Brindle CFP®

Daniel Bryant CFP®
Planpack Financial

Blake Conde CFP®
Financial Decision

Guang Lin CFP®
TNT Wealth

Christelle Murr CFP®
StatePlus

Kurt Ohlsen CFP®
Profile Financial Services

Steven Watson CFP®
Sydney Financial Group

QLD

Louise Gibson CFP®
Australian Financial Advisers

SA

Dylan VandenBrink CFP®
Dixon Advisory & Superannuation Services

TAS

Danielle Farrell CFP®
Zenith Wealth

VIC

Daniel Anevski CFP®
My Life My Advice

Valerie Baring CFP®
ASIC

Matthew Campbell CFP®
Pitcher Partners Investment Services

Zishen Fan CFP®
Mercer

Jaya Hingorani CFP®
Industry Fund Services

David Howie CFP®
StatePlus

Brendan Peacock CFP®
Pitcher Partners Investment Services

Rachelle Misich CFP®
Shakespeare Financial Services

RESEARCH INTO AUSTRALIA'S GIFT-GIVING

A look at some of the key findings from Financial Planning Week's *Gifts that Give* research.

As part of last month's Financial Planning Week (19-25 August), the FPA commissioned national research to uncover and better understand the gift-giving habits and expenses of Australians.

The *Gifts that Give* research explores the types of gifts we give, how much we spend on gifts, the internal drivers of gift-giving and personality gift-giver profiles to help people identify their own gift-giving preferences.

In releasing the research, FPA CEO Dante De Gori CFP® said he was delighted to see that 85 per cent of Australians find more pleasure in giving gifts to others than in receiving gifts, but was concerned that the research showed that most of our generosity was unplanned.

"Significantly, $19.8 billion spent on gifts each year in Australia is not accounted for in household budgets by three in four Australians," he said. "That's an obvious opportunity to increase our nation's financial literacy and awareness of the benefits of budgeting, planning and giving in a way that brings joy without debt or regret."

However, De Gori was encouraged by one outstanding fact from the research: four in five young Australians would like to receive the gift of time with a financial planner, specifically 81 per cent of Gen Z (aged 18-24) and 76 per cent of Gen Y (aged 25-39).

"That fact, combined with the strong trend towards giving cash or gift cards, inspired the FPA to create a practical gift in the form of a gift voucher, where people can pledge to contribute to pay for the services of a financial planner to an agreed value."

GIFTS FOR THE FUTURE: A FINANCIAL PLAN

The research uncovered that three in five Australians would like to receive the gift of time with a financial planner, providing them with the peace of mind knowing their finances were in order, and providing a path forward to achieving their financial and life goals.

This figure was higher with younger Australians, who were increasingly aware of the challenges and complexity of managing their finances well. Four in five younger Australians (aged 18-39) said they would like to receive the gift of time with a planner.

These generations were already exhibiting responsible financial behaviour, with two-thirds of them (64 per cent of Gen Z and 67 per cent of Gen Y) saying they have a budget to manage their finances, compared to 53 per cent of Gen X (aged 40-54) and 46 per cent of Baby Boomers (aged 55-73).

SPECIAL OCCASIONS

The research also discovered that weddings were the biggest gift-giving occasion by Australians, with people spending an average of $137 on a wedding gift. The top gift types given for weddings were cash and gift cards (44 per cent), with home and garden gifts (26 per cent) coming in second.

Not surprisingly, birthdays also featured in the spending habits of Australians, with an average of $50 being spent on a gift for a child and $66 for a teenager.

Families with young children purchase the greatest number of birthday gifts. Two in five (44 per cent) buy one or more gifts each month. Not only do they buy the greatest number of gifts, they also spend the greatest amount - $123 per month, compared to $100 overall.

And when it comes to the festive season, consumers spend an average of $93 on a Christmas gift, while those with young families spend more, averaging $117 on a Christmas gift.

The top three Christmas gift preferences were: cash or gift cards (31 per cent); food and alcohol (14 per cent); and technology and gadgets (12 per cent). Interestingly, Gen Z were the only generation likely to give fashion and jewellery as Christmas gifts and were least likely to give cash or gift cards.

CASH GIFTS

Another interesting finding uncovered by the research was the popularity of giving cash or gift cards for special occasions, other than children's birthdays, when toys were the favoured option.

Of all the generations, Baby Boomers indicated the highest preference giving cash (including gift vouchers and gift cards), with 53 per cent preferring to give cash for weddings, 41 per cent for Christmas gifts, 38 per cent for adult birthdays, 45 per cent for a teen birthday, and 21 per cent even prefer to give cash for a child's birthday.

However, the research confirmed that not only do Australians prefer to give cash for these significant occasions, they also prefer the convenience and usefulness of receiving cash or gift cards.

Even parents reported their children were also strongly cash or gift card focused, with cash coming in as their second preference for a birthday gift.

THE GIFT OF TIME

As the pace of life speeds up, it's not surprising that more Australians feel time-poor. This was reflected in the research, which showed that intangible gifts are often the most practical gifts to share and receive by Australians.

Spending time with family and friends was one of the most sought-after birthday gifts by responders. Given the choice, 61 per cent said they prefer others to celebrate their birthday with them, by spending quality time together.

In fact, the research revealed that Australians prefer an experience together (39 per cent), before a tangible gift or cash gift (30 per cent).

Intangible gifts were particularly important for Gen Z, which was the only generation where half (53 per cent) said that receiving an intangible gift, such as time, an experience, or learning a new skill, had a more significant impact on shaping their life than a physical, tangible gift.

In contrast, this was just 27 per cent for Baby Boomers.

GROUP GIVING

Another trend identified in the research was group giving, with nearly three-quarters (73 per cent) of Australians participating in group gift-giving.

Group giving is particularly popular among the younger generations, with four in five Gen Zs and Gen Ys participating in group giving, compared to only three in five Baby Boomers. Women were more likely to participate in group gift-giving than men (77 per cent compared to 69 per cent).

The Gifts that Give research is based on a national quantitative survey of 1,000 Australian adults. The research was conducted between 2-10 July 2019. To read the report in full, download a copy from moneyandlife.com.au

4 GIFT-GIVING PERSONALITIES

There are four distinct gift-giver personalities in Australia. They are:

HEARTFELT GIVERS

- Spend $103 per month on gifts
- Least likely to bulk buy gifts (29%)
- Mostly female (57%)
- Most likely to value the gift of seeing a financial planner (64%)

PRACTICAL GIVERS

- Spend $104 per month on gifts
- Most likely to budget for gifts (40%)
- Highly value the gift of seeing a financial planner (60%)
- Most likely to be older (66% Gen X or Baby Boomer)

IMPULSIVE GIVERS

- Spend the most on gifts at $112 per month
- Mostly female (61%)
- Least likely to budget for gifts (24%)
- Highly likely to value the gift of seeing a financial planner (61%)

SIMPLE GIVERS

- Spend the least on gifts at $85 per month
- Least likely to value the gift of seeing a financial planner (53%)
- Highly likely to be older (61% Gen X or Baby Boomer)
- Prefer to give cash or an easy gift, such as wine or chocolate

1 APRIL 2019 TO 30 JUNE 2019

COMPLAINTS AND DISCIPLINE

In the April to June quarter, the FPA received nine new complaints, finalised seven complaints and have 13 ongoing complaints. Of those ongoing complaints, one is subject to preliminary enquiries, six are in the process of investigation where information has been requested from members and/or complainants, four are in the process of finalising the report by the investigating officer to the Conduct Review Commission (CRC), and two matters are currently with the CRC in order to determine if disciplinary proceedings should be commenced against the member.

AUTOMATIC TERMINATIONS

No members were automatically terminated under the FPA Constitution during the quarter.

TPB REFERRALS

The FPA continued to experience an increase in referrals from the Tax Practitioners Board (TPB) in relation to FPA members not renewing their registrations with the TPB on time. FPA members are reminded that under the *Tax Agent Services Act* (TASA), the TPB is required to inform the FPA when a member is subject to disciplinary action by the TPB Board.

11	**Complaints ongoing as at 1 April 2019**
9	New Complaints
7	Closed Complaints
13	**Complaints ongoing as at 30 June 2019**
0	Members Suspended
0	Members Expelled (CRC)
0	Members Terminated (Constitution)
0	Other Sanctions (CRC)
1	Referred to Professional Designations Committee for Sanction

ACADEMIC MISCONDUCT

During the quarter, the Professional Designations Committee handed down sanctions to one student in the CFP® Certification Program. The student was found to have reproduced work that was not entirely their own work, and were found to have reasonably reproduced work of a former student. A sanction of fail and repeat applied in this instance.

Current and prospective students should familiarise themselves with the CFP Program Handbook and the FPA Disciplinary Regulations 2019 regarding academic misconduct for the sanctions that may apply if academic misconduct is proven.

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

OUT AND ABOUT

A number of Chapters recently hosted the **FPA 2019 Women in Wealth** networking event series, featuring netball stars Caitlin Bassett and Jo Harten. The 2019 series is proudly sponsored by Platinum Asset Management with support from Financial Executive Women. The FPA also acknowledges the generous supporters who raise funds to support **Future2's Make the Difference! Grants** program at these events.

SUPPORTING *Future2*

WE LOOK FORWARD TO SEEING MEMBERS AT THEIR NEXT LOCAL CHAPTER EVENT.
FOR UPCOMING EVENTS, VISIT FPA.COM.AU/EVENTS

Insight

OPINION CORNER

HERE'S TO A LONG LIFE

Question: As more Australians are spending longer in retirement than previous generations, how are you managing your clients' longevity risk?

Amanda Cassar AFP®

Adviser Director, Wealth Planning Partners

Licensee: Financial Services Partners

When meeting with new clients, longevity risk is a part of our conversations. Three of my four grandparents, and my husband's, survived well into their 90's, so it's a topic that is close to my heart.

Discussions about whether people want to spend 30 years in retirement or they're happy to work longer, is vital. We also talk about what our clients have planned for their retirement years. Spending over 25 years doing nothing, is some clients' idea of heaven, and for others, it's hell.

Some like to reduce their hours, spend more time with the grandchildren, travel, try new things or volunteer.

I've also had retired clients go back to part-time work, as they felt they were no longer contributing to society or were bored and just wanted to feel needed again.

With an increasing pension age and low retirement savings for many, it's certainly a conversation that takes on new meaning and the earlier clients are having 'the chat', the better.

After all, we all want the benefit of years, savings and compounding interest on our side, especially when we're in such a low interest rate environment and the hunt for yield is real.

Martin Webb CFP®

Director, Graham Financial

Licensee: Graham Financial

Running out of money is a deep fear of all retirees. Clearly, the best mitigation of longevity risk will be to start with a large sum and use it for a short time – unfortunately, this approach rarely lines up with the client's reality.

We start planning for longevity risk well before the client's preferred retirement date arrives. Our approach will focus on what the client has most control of – the amount they spend. Whilst all the variables matter, unsustainably high drawings are the single most preventable action that will accentuate longevity risk!

Clients will generally live longer than they expect. They need to consider that while super pensions start with a minimum draw of 4 per cent per annum, they will increase to 9 per cent by age 85. Spending all the super pension at the beginning may be fine, however, we counsel for increased savings in line with increases in the minimum draw.

Investment maxims do not change. We remind clients that asset allocation will remain the key driver of future returns and valuations will provide the best guidance to the relative risk/return attributes of investments within their overall portfolio. Diversification within the retirement portfolio will remain the key tool to balance investment and longevity risk.

Finally, we remind clients that drawing a regular pension requires the portfolio to retain enough liquidity that it can fund three years of payments without touching growth assets.

Question:

As more Australians are spending longer in retirement than previous generations, how are you managing your clients' longevity risk?

John O'Brien AFP®

Partner, VISIS Private Wealth

Licensee: VISIS Private Wealth

Most of our clients don't qualify for the Age Pension, so they don't have a guaranteed level of income to rely upon throughout retirement. Instead, they rely upon their asset base to generate sufficient income to provide for their entire retirement, which is continuing to increase in length.

We utilise several strategies to effectively provide a 'privately-funded Age Pension', combining short-term annuities, a lifetime annuity and an allocated pension. This strategy is only applicable to clients who have sufficient capital to buy annuities, with a great enough income to support their expenses.

This layering approach provides a guaranteed fixed level of income for essentials and a higher spend in the first five or 10 years of retirement from the annuities component, allowing the allocated pension component of the strategy longer to continue growing, whilst the cash flow is maintained by the annuities in the early years.

The lifetime annuity acts as a financial backstop to provide a guarantee that, regardless of market outcomes and changes to asset positions over time, the client will never need to solely rely on the Age Pension should they become eligible.

Having an ongoing relationship with clients, and knowing in advance a clients' estimated retirement date, allows us to de-risk their assets in the lead up to retirement to reduce sequencing risk, should a significant sharp market decline occur just before or after their retirement date.

These two strategies form just a part of preparing clients financially in the lead up to and throughout their retirement.

And combined with proactive investment management, we aim to provide our clients with increased peace of mind, allowing them to enjoy their retirement years.

Anne Graham CFP® LRS®

CEO and Senior Financial Planner, Story Wealth Management

Licensee: SWM (Aust) Pty Ltd

As financial planners, we know the risk of clients' outliving their retirement savings is very real, however, it's also a risk that clients often prefer not to face up to. For me, the starting point for managing longevity risk is persuading clients to accept the possibility of outliving their money and then providing them with the strategies, portfolios and behavioural skills to set them up for success.

Behaviour changes: We spend much of our time encouraging our clients to understand and appreciate that there is a real risk they'll outlive their money. When there is an understanding of various trade-offs, most clients need to consider that it's easier for them to make informed decisions and take ownership of their actions.

Portfolio risk: The portfolio needs to be aligned to the client's risk tolerance. However, in the case of retirees, we need to be cognisant of the impact a loss may have. The desire to generate healthy long-term returns is also important, so the risk/return trade-off takes on different meaning for a retiree.

Legislative risk: Social security benefits can make up a significant portion of a client's income and can't be dismissed. Consideration of tax implications on a client's finances is also fundamental. As we know, tax and social security rules change often, so it's important to be aware of the impact changes have on a strategy and adapt accordingly.

Strategy and products: Using a range of products can make a strategy more robust and flexible for the future. Providing an element of guaranteed income, whilst maintaining access to capital, is nirvana to some clients, particularly if it also provides an uplift in social security benefits. Many clients though prefer to trade off secure income for the long-term benefit of capital growth.

We approach clients' longevity risk in a number of ways, however, the most effective strategy is regularly talking to clients about this issue, revisiting potential outcomes and empowering the client to make smart decisions for the long-term.

Question:
As more Australians are spending longer in retirement than previous generations, how are you managing your clients' longevity risk?

Troy Theobald CFP®

Director - Financial Services, Robina Financial Solutions
Licensee: Australian Advice Network

Longevity risk is a major issue for clients. Twenty years ago, we were talking to clients about travel in their 60s and not expecting a lot of expenditure beyond this. Now we have clients in their 70s skiing. They are travelling the world like never before and doing this well into their 80s. The birth of the cruising retirees has emerged.

We need clients to continue to have short-term money that cannot drop and we need some balanced approach to increase returns over time.

Some are happy to have an allocation to growth but this is up to the individual. Cash may feel good but longevity in a low interest rate cycle can be the greatest risk. Technology allows us to build a portfolio for clients to separate income and growth.

Clients also need to be cautious of the 'off the shelf' balanced approach and looking at returns from funds that are targeting accumulators. This may be more risk than they should take and the negative years hurt in retirement.

Investing is hard and unfortunately, people have begun to think it is easy. There needs to be strategy and a constant understanding of the exact risks they are taking. If we get this correct, then their biggest problem should be deciding on what exotic destination to travel to next.

Daryl La'Brooy CFP®

Principal and Financial Adviser, Hillross – St Kilda Road
Licensee: Hillross Financial Services

Ideally, we work with clients well before they get to retirement, so they can plan for a longer than expected statistical life expectancy.
These clients are well prepared for a potentially longer time in retirement, as we have had time to cater for this eventuality.

For clients who see us at their retirement, it's a lot harder, as we have to deal with the investments they have at the time. With the introduction of the new Pension Loan Scheme on 1 July 2019, clients potentially have more options in retirement if they own their own home than they did before the old scheme was amended.

The downsizing contribution into super is another opportunity if clients are out of capital due to higher than expected longevity.

We are also finding some clients are inheriting money from elderly family members or parents in retirement. This injection of capital in later years is also proving to be helpful in enabling them to live on a higher income than the Age Pension alone.

Some clients spend a lot more money in their early years of retirement deliberately and then cut back in later years once they have got the travel bug out of their system, or health and higher travel insurance costs make extensive travel, especially overseas, more difficult.

Every client is different. However, by getting advice, our clients manage their longevity risk better than those who attempt to grapple with this issue without advice.

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.

MEET THE BOARD

SHARE THE GOOD NEWS

Delma Newton CFP® is intent on encouraging more planners to share their inspirational good news stories with the wider community.

Delma Newton might live in Brisbane, but growing up in the NSW Northern Rivers town of Nimbin, this lady bleeds 'blue' when it comes to her footy – that's 'rugby league' in Brissie.

"I may live in Queensland now, but I was born and bred NSW, and have never changed allegiance," she defiantly says. "And to add a little bit of heat to the fire, when it comes to the National Rugby League competition, I follow the Manly Sea Eagles. That's the team you either love or hate, and I love them."

The girl from Nimbin is full of little surprises, none more so than her decision, five years ago, to nominate for the FPA Board. In hindsight, she says it was one of her better decisions.

"I previously served on the FPA Brisbane Chapter committee for about 10 years, including a five year stint as Chapter Chair. I then decided to take some time off to concentrate on my business, but it wasn't long before I was encouraged by my colleagues to join the FPA Board."

And with a pedigree in financial planning spanning 25 years, Delma was well qualified for the Board, having experienced firsthand the highs and lows of running her own planning business – Total Portfolio Management. The CFP® practitioner was appointed to the FPA Board in November 2014.

"Nominating for the Board wasn't a hard decision for me to make," she says. "I am a firm believer in the importance of giving back to your community and helping others. It's the way I was brought up. So, joining the Board was my way of giving back to my profession.

"And I also believe that if you want to make change, you need to jump in, have a go and do something about it. And that's what I'm doing."

A TYPICAL MONTH

As part of her Board responsibilities, Delma current chairs the Regional Chapter Committee and is also a member of the Audit and Risk Management Committee. She admits that no one month ever looks the same.

"I also spend time helping out the Chapter Chairs with their queries and with any problems they may be having. It's a tough gig being a Chapter Chair, so anything I can do to help them, is something I'm only too willing to do."

Following each Board meeting, Delma shares relevant information to the representatives on the Regional Chapter Committee, which is then disseminated to the Chapter Chairs and members. This helps keep practitioners updated with what's happening at the Board level.

"And, of course, I need to keep on top of the Board papers, as well as keeping an eye out for any issues that may affect our members or consumers. There's a constant need to stay on top of things."

TOWARDS 2030

Delma concedes there are still many issues ahead for the profession that continue to keep her awake at night – both as a business owner and CFP® practitioner. Top of her list are: the cost of advice, practitioner wellbeing, and the lack of financial planning good news stories in the media.

COST OF ADVICE

Delma says the escalating cost of advice to clients is something that concerns her.

"Despite the intended outcome of all the legislation and regulation to make advice more affordable, it has actually had unintended consequences by adding to the cost of running a planning business, meaning planners are required to do more work just to get an SOA or plan out to a client," she says.

"This means clients and consumers are being priced out of the market. And that's terrible, because financial planning shouldn't just be for people on higher incomes; it should be available to all people who need it and at a reasonable price."

To help alleviate some of the pressures of running a business, Delma says the FPA has rolled out a range of resources to assist planners better understand, adapt and streamline their systems and processes to recent regulatory requirements. This includes material on the FASEA Code of Ethics and the updating of the FoFA toolkit, which assists members in the transitioning of their business models to fee-for-service.

"As a member association, we are constantly talking to Government and the regulators about policy issues," Delma says. "The FPA even has a lobbyist in Canberra, who is helping the FPA and members get better access to the decision-makers."

WELLBEING

As a business owner, Delma is also acutely aware of the level of stress planners are currently subjected to as a result of all the recent legislative and regulatory changes.

"In my role as Chair of the Regional Chapter Committee, I have become more aware of the number of planners who are finding it really tough dealing with the fallout from the Royal Commission and changes to the education requirements that they now have to meet," she says.

To assist members better cope with these stresses, the FPA has rolled out FPA Wellbeing, which is a free and confidential coaching and support program that has been specifically developed to assist practitioner members through this challenging time for the profession.

And to assist members navigate the new FASEA education standards, the FPA has introduced an online education hub – FPA Return to Learn.

"For members who haven't undertaking formal study for a long time, the resources available at FPA Return to Learn have been designed to help them get back into study, as well as assist them work out what extra subjects or units they need to do," Delma says. "The important thing to remember is no member will be left behind. We're all in this together and the FPA will help all members deal with these changes."

GOOD NEWS

A bugbear of Delma's is the lack of good news stories about financial planning in the media. Unfortunately, it's the old cliché of bad news sells, but this need not be the case.

Delma Newton CFP® FFPA

Practice: Total Portfolio Management

Years as a planner: 25 years

Elected to the FPA Board: November 2014

"We turn on the TV and there might be another media report of a 'rogue planner', who may, in fact, not even be a planner but the media calls them a financial planner, and then the whole profession gets dragged down once again. That annoys me a lot."

According to Delma, to help address this negativity, the FPA is using its e-newsletter, FPA Express, to highlight practitioner members who have appeared in the media (both traditional and social) with their good news stories about the benefits of financial planning.

"I want to encourage more members to share their good news about financial planning," Delma says. "This can be as simple as posting something to LinkedIn, Twitter or Facebook. I want more planners to be proactive about promoting their 'good news' stories."

Delma believes that if 11,000 FPA practitioner members posted just two good news stories on LinkedIn each year, with an average click rate of 100, that could be 2.2 million views annually on LinkedIn alone.

UNFINISHED BUSINESS

With five years under her belt as a Board member, what have been some of Delma's highlights?

"A definite highlight was working on the Congress for three years as Congress Chair. Working with a highly motivated team, and helping them pull together something as massive as Congress, was incredibly rewarding. It was also satisfying to help raise the education standards of Congress, by lifting the ethics content from one hour to three hours," she says.

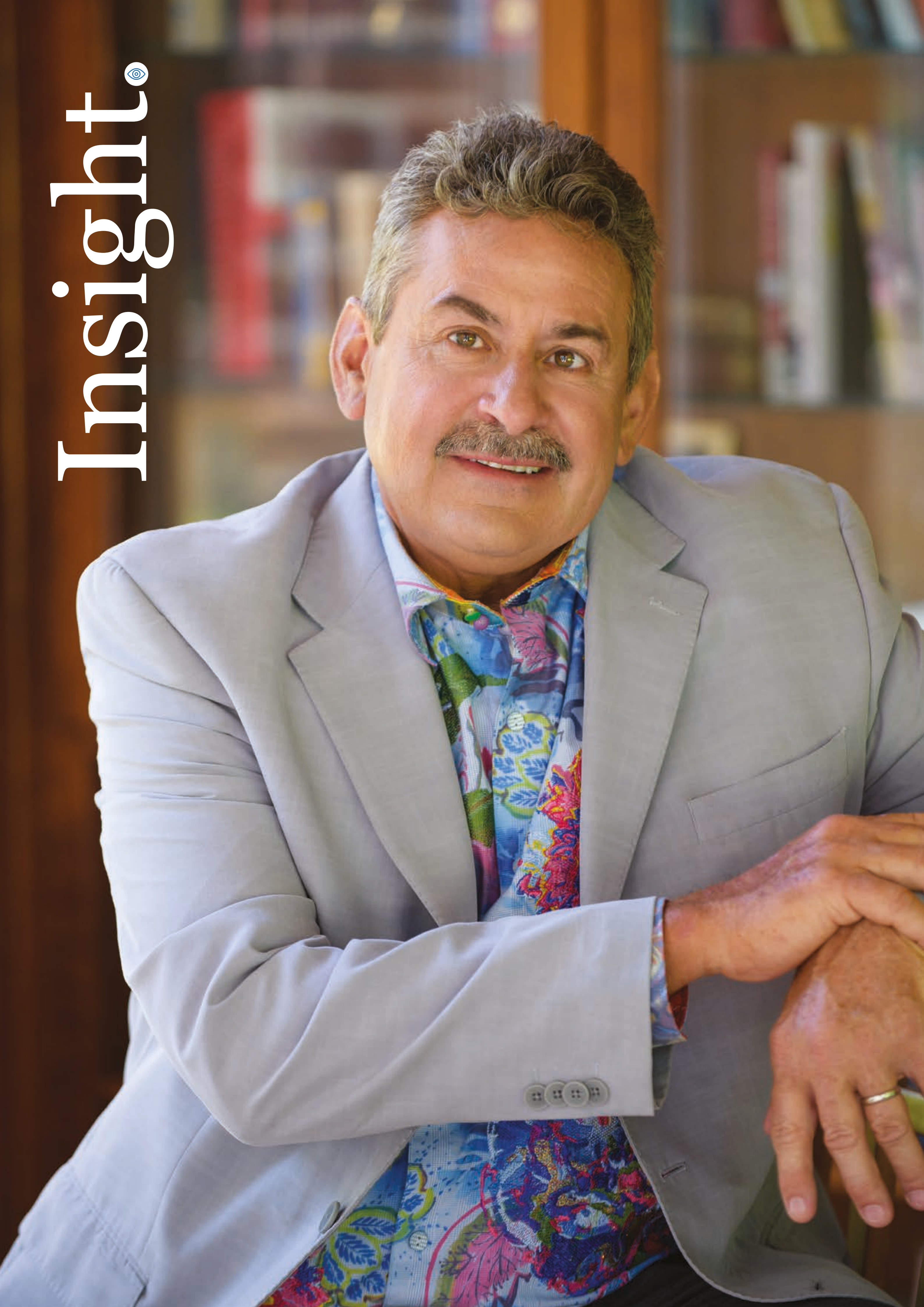
Another highlight has been working with the Chapter Chairs on a day-to-day basis, and seeing firsthand the wonderful things they are doing within their communities.

"It's reaffirming to see just how amazing our profession is at the coalface and in the incredible ways our members are making a difference in the lives of their clients."

And what unfinished business is left for the girl from Nimbin?

For Delma, her first priority is helping members through the new FASEA requirements as easily as possible, which she concedes will be ongoing after her tenure on the Board expires. And her second priority is to encourage more planners to share their good news stories.

"I joined the Board wanting to get the good news stories about our profession out to the wider community. So, I am intent on encouraging more FPA members to share their remarkable and inspirational stories. It's up to each and every one of us to share our good news stories. If not, then who will?"


Insight

WHAT'S *your return on life?*

For a more sustainable business model, **Mitch Anthony** encourages planners to change their central value proposition to one that is focused on the life of the client. He talks to Jayson Forrest about the need for change.

As we rapidly head towards a new decade, the traditional role of the advice professional has never been under as much pressure. New technology, changing client expectations, regulatory change and the escalating cost of advice, are all impacting the delivery of advice.

But they are challenges not confined to Australia, with overseas markets also facing similar hurdles. And who better to talk about the offshore experience than financial planning coach and author, Mitch Anthony.

Mitch was a standout speaker at the 2018 Congress and he is back again for this year's FPA Professionals Congress, where he will be appearing on a panel session of global planners (from Singapore, U.K., U.S. and South Africa), sharing their insights about the challenges from their part of the world, and how they are navigating change to develop sustainable business models.

If you heard Mitch speak last year, there's one thing he doesn't dabble in – procrastination. Mitch is very upfront about the challenges facing the financial services industry, but they're not insurmountable.

Speaking at last year's Congress, Mitch says he sensed a lot of fear and apprehension amongst planners in relation to all the uncertainty that change was bringing to the profession. But he dismisses any idea that this is unique to Australia and that planners here cannot learn from what's happening to their colleagues overseas.

"I've seen this type of uncertainty and fear take place in other markets, including the U.S., when legislative change causes a shakeout within the industry, and the good name of 'financial advice' is tarnished," he says.

"What I encourage planners to do is to transcend all that fear and uncertainty with your comportment and with your conversation with clients. Planners need to demonstrate what real advice is and what a real planner/client relationship looks like."

Share with your clients the principles that you abide by and articulate these principles with conviction. This is what I call the 'fiscalosophy' of advice. – Mitch Anthony

VAPOROUS AND VACUOUS

Form a global perspective, Mitch believes we are at a "one of a kind inflection point" in financial services, with value propositions that are either 'vaporous' or 'vacuous'.

For Mitch, a vaporous value propositions involves asset allocation and portfolio rebalancing, which can be easily replaced by technology. He says there are companies in the U.S. offering asset allocation and rebalancing for zero basis points, and "you can't make a living on zero basis points".

"When a planner hangs their hat on doing something like asset allocation and rebalancing, and is charging their client 100-150bps, but suddenly the client realises they can get that done for 25bps, your value proposition has just evaporated."

And what does he mean by a vacuous value proposition?

"This is when you chase a number for a client," Mitch says. "Do you remember when you were younger and you had a specific number in mind, thinking that if you could ever make that much money, then everything would be wonderful? Well, numbers actually mean nothing. That's a vacuous value proposition."

He points to relative investment performance, saying comparing your results to an index or a competitor is meaningless.

"One of the things I emphasis is not to engage in comparative conversations, because human beings are all on different paths. What's important is that for progress to be meaningful, it has to be highly personal. As soon as you start comparing what you're getting to what somebody else is getting, or what an index is getting, it's no longer about you.

"So, I think planners, both here and overseas, have been hanging their hats on these value propositions, but they're really meaningless; they are vaporous and vacuous."

RETURN ON LIFE

Instead, Mitch urges planners to change their central value proposition to one that is focused on

Continued overleaf

the life of the client – Return on Life™ (ROL).

According to Mitch, year in and year out, clients are being compared with last year's returns, indexes and competitors. He says it's a no-win game, and the time has come for planners to change their central value proposition from ROI (return on investment) to ROL.

"Today's clients want more from you than being a purveyor of products or an asset allocator. They can get these things elsewhere and at a much lower cost," he says. "By becoming an ROL planner, you can demonstrate your wisdom, experience and insights, and help your clients clarify their life transitions, priorities and goals. You already have the tools and the skills to make a difference in their lives."

For clients, money has purpose, says Mitch. But as a planner, if you don't understand the purpose of that money, then the planner is really just operating in a black hole.

"My definition on ROL is to get the best life possible with the money you have. You don't need to be a mega millionaire to have a life, you just have to have wise money management."

Mitch believes what consumers are desperately in need of is wisdom and guidance in their financial decision-making. "And that's what the true definition of advice is. It's not selling a product. It's wisdom and guidance.

"When your value proposition is tied to the wellbeing of your client and their financial freedom, which allows them to do what they want, at the pace they choose, with the people they want to work with... well, you've got something that is powerful."

CHANGE YOUR MINDSET

According to Mitch, reappraising your value proposition will be the key to success, as the profession evolves and adapts to changing client expectations.

"The processes and value proposition that planners present to their clients has to become more personal and personalised. And for that to happen, we have to realise that the client's story and journey is more important than the client's numbers," he says.

"It's not about a story of numbers, it's about a number of stories that tell us where the client has been, where they are at today and where they are headed, as their story and life unfold into the future. So, if you want a 'sticky' value position, then it has to resonate with the life and the soul of the client."

It's not about a story of numbers, it's about a number of stories that tell us where the client has been, where they are at today and where they are headed, as their story and life unfold into the future. – Mitch Anthony

To create this 'sticky' value proposition, Mitch has developed a process called a 'financial lifeline', where the planner collaboratively works with the client to chart out the next 15-20 years, including all the life transition changes that are likely to occur during that period, such as children leaving home and career changes. These changes are all charted out on a client's personalised lifeline. As Mitch says: "It's better to prepare than repair."

"If we wait for these events to happen, then we're going to be left cleaning up the financial mess of our clients. But if we are proactive and prepare ahead of these events, we can ensure our clients are in much better shape, both mentally and financially, when they do occur."

Mitch adds that the biggest financial mistakes people make tend to happen during these life stage transitions, when emotions run high and life is unsettled.

"So, mapping out a client's lifeline over the next 15-20 years allows the planner/client relationship to take on a highly personalised and very real human aspect. It's an excellent way for planners to engage more closely with their clients around key life stages, thereby providing a more tangible value proposition."

REGAINING TRUST

By making financial planning a more personal offering, Mitch believes planners can take the first step in rebuilding trust that has eroded over recent years due to industry misconduct. To him, it's a 'no brainer'.

YOUR SPEAKER

Mitch Anthony is the President of Advisor Insights. He has been creating innovative discovery approaches for the financial planning community for the past two decades. He is known for having created 'Financial Life Planning' (2001), 'Return on Life' (2005), and 'Life-Centered Planning' (2017). A prolific author, Mitch's books include *StorySelling for Financial Advisors*, *The New Retirementality*, and *Your Clients for Life*.

Mitch is co-founder of Lifecenteredplanners.com and developer of the Certified Life Centered Planner program at Texas Tech University. Along with Steve Sanduski, he founded ROL Advisor, a coaching community, and the Retirement Coaching Program that equips planners with the skills to help clients navigate modern retirement.

He is a regular media columnist, a prolific author and the host of the daily radio feature, *The Daily Dose*, heard on over 100 radio stations in the United States.

"However, I honestly believe you can't rebuild trust with an industry, you can only rebuild trust with an individual. It all comes down to how you, as a planner, show up to work as a human being, with integrity and genuine interest in your client's wellbeing."

As the first step in rebuilding trust, Mitch encourages planners to properly understand what transparency is and to demonstrate transparency to clients. That includes how much you get paid, how often you get paid, why you get paid, and what the value is you're providing to your clients.

"When it comes to transparency, there is a huge difference between it and disclosure," he says. "Disclosure is what you have to do because it's been legislated. Transparency is what you choose to do because you don't want any mystery or opaqueness in your relationship with the client, and because it's ethically the right thing to do."

BUILDING RELATIONSHIPS

In addition to Mitch appearing on the panel session of global planners at Congress, he will also be conducting a workshop on 'building relationships that last and flourish', which begs the question, how do you build relationships that last and flourish?

"The key is for planners to work on the human aspects of delivering advice," Mitch says.

He qualifies this by adding that the financial services industry is at a crossroads between product and process, with processes "going down the drain" of commoditisation.

"We have companies in the U.S. offering financial plans for 25bps. So, the fork in the road for the profession is between money-centred advice and life-centred advice. I believe the way forward is life-centred advice, in which case, planners need to improve their skills on the human side of this business," he says.

"People are complex and you can't treat them as a soft skill add-on. The soft skills in planning is the hard stuff. Computers and algorithms can work out all the hard, technical stuff. Planning is all about human connection and that's something we can never forget, if this profession is to remain relevant and vibrant in the years ahead."

A key to building relationships that last is the open exchange of stories and experiences between client and planner, which also helps build trust and empathy in the relationship.

"When it comes to human connection, I challenge planners to become better biographers of their clients' stories, as well as getting better at sharing certain aspects of their own story. By doing so, your clients will be able to more effectively connect with you."

His second key to building relationships that last is for planners to become "fiscal philosophers". But what does that mean?

"It means having a point of view," Mitch says. "Share with your clients the principles that you abide by and articulate these principles with conviction. This is what I call the 'fiscalosophy' of advice.

"It's important for clients today to know they are interacting with a financial planner who has a point of view. They want a professional who is informed by experience and who truly wants to help them make progress in their life. People will follow someone who has a point of view that resonates with them."

It sounds easy in theory, but is it difficult to put these two key elements together when building relationships that last?

"It's all about the dialogue," Mitch says. "It's about opening up that dialogue that resonates with the client. For example, you might say: 'Look, everybody else might just be talking about your money and your investment returns, and yes, we will also talk about that but that's not why we're here. Why we're here is for you to get to where you want to be in life; to have the life you want to have. We understand your money has purpose.'

"So, planners need to get better opening up the dialogue with clients in that context."

Mitch strongly believes that advice professionals need to earn the right to talk to clients about their money, which means taking the time to truly understand the client, their pain points and their objectives. He says, planners need time with their clients to understand: where they've been, where they're at, and where they're going. "Only then can they begin diving into the financial planning process."

Mitch Anthony will be part of a panel discussion at the 2019 FPA Professionals Congress in Melbourne (27-29 November). He will also be conducting a workshop on 'How to build relationships that last and flourish'. For more information on the Congress program, go to: fpacongress.com.au

RETIREMENT INCOME

LONGEVITY RISK HIGHLIGHTS POST-RETIREMENT SOLUTIONS

The paucity of post-retirement product solutions remains a very real issue for ageing Australians, who due to greater life expectancy, run the risk of outliving their investment savings.

Like it or not, the humble account-based pension and term deposit are completely agnostic to a person's individual objectives. They're also increasingly inadequate at addressing the likelihood that most Australians will spend more time in retirement than ever before.

Given the pressure that longevity places on retirees to adequately fund their retirement, managing increasing longevity requires far-reaching changes to Australia's retirement system and the products supporting it.

In fact, according to the 2015 Intergenerational Report, Australians are enjoying one of the longest life expectancies in the world. While that's good news, there needs to be much greater emphasis on creating longevity-conscious solutions that ensure their savings can go the distance in retirement.

So, in light of these considerations, how is the market responding?

Traditional retirement products clearly still have a role to play within future longevity solutions. However, Allianz Retire+ Head of Product and Customer Experience, Jacqui Lennon says more planning strategy needs to focus on providing a more integrated approach to retirement income.

While planners already have a suite of products and strategies to help maximise their clients' funds in retirement, Lennon would like to see more retirement product solutions that incorporate a growth style asset allocation, to balance the defensive nature of an annuity or term deposit.

"Traditional products currently available in the market range from account-based pensions – where retirees take all the risk and all the returns, but with little protection in their portfolios – through to more defensive products, where they take no risk and get very little return on their investment," says Lennon.

Given the current volatility in global markets and the low interest rate environment, Lennon urges planners to talk to their clients about the dangers of 'sequencing risk' and the possible depletion of their retirement money a lot earlier than expected.

"Retired clients who drawdown on their savings during a market downturn, can find it difficult to recover the fall in the value of their investments," warns Lennon. "With people feeling so uncomfortable about the current market environment, we need to be thinking more deeply about how we can get better protection into the portfolios of retirees."

VARIABLE-INDEXED ANNUITY

However, on an encouraging note, a new generation of retirement income solutions, like variable-indexed annuities, have recently entered the Australian market. By using this style of annuity, investors can potentially participate in market growth, in the knowledge that their loss potential is limited during market downturns.

What's particularly appealing about these next-Gen solutions, adds Lennon, is the role they're playing in the middle space between traditional retirement products, where risk and return is shared with retirees.

Commonly used by investors in the U.S. who want both upside investment growth and some investment protection, variable-indexed annuities are essentially deferred annuities with equity index-

linked accumulation potential, and some exposure to downside market performance.

Like an indexed annuity, the investment return delivered during the term of the variable-indexed annuity is linked to the performance of a particular index, like the S&P 500 or the S&P/ASX 200 Accumulation index.

According to Scott Stolz, Senior Vice President, Private Client Group Investment Products at Raymond James Financial, one of the real benefits of a variable-indexed annuity is it allows the policyholder to capture much more of the upside of the index than an indexed annuity.

But this can't happen without a trade-off, adds Stolz, with a variable-indexed annuity – unlike an indexed annuity – only protecting some of the downside, which means a policyholder can potentially lose money.

Variable-indexed annuity policyholders are required to make a number of initial choices. Firstly, there's the duration of the policy term, which is typically from one to seven years (see breakout on p24 for further explanation).

FIRST TO MARKET

As a case in point, Allianz Retire+'s recently launched, Future Safe – believed to be the first variable-indexed annuity to hit the local marketplace – has a seven-year fixed term. Given that it's impossible to predict how the sharemarket will perform, Lennon says that by capping positive returns over a certain amount, it's possible to provide a minimum 'floor' to guard against market losses.

What resonated loudest when the company spoke with retirees, adds Lennon, was their willingness to trade-off upside, if it meant they could be assured they had control over their losses.

While they know they need exposure to growth, what they really don't want, she says, is the associated risk. "This [variable-indexed annuity] gives investors the confidence of knowing their worse-case scenario upfront," says Lennon.

KEY CONSIDERATIONS

The power of variable-indexed annuities can help buffet clients from the effects of sequencing risk in the lead up to retirement and the period shortly after entering it, when their savings are most vulnerable to a drop in the sharemarket.

However, despite the protection they provide to moderately conservative investors (like retirees), against downside risk when markets underperform, and the opportunity to earn higher investment returns than traditional fixed-rate annuities, variable-indexed annuities are clearly not a silver bullet for all investors.

For starters, there are liquidity constraints. As a fixed-term product, this style of annuity, like a term deposit, locks investors' funds away for the duration of the policy.

Admittedly, some products, like Future Safe, do allow investors to access a portion of their investment free of charge annually. But any excess withdrawals, over a base limit, comes with a fee that can be quite hefty.

Then there's the fixed-term consideration, which means investors can't add to the policy once it has started, and there is generally an annual product fee attached.

THE POWER OF AN INTEGRATED APPROACH

Despite their liquidity and other constraints, Lennon claims that by using variable-indexed annuities alongside other retirement products, investors can ensure they have access to money outside of the product to meet their emergency needs.

"This type of product can be part of an integrated retirement income strategy that includes an account-based pension and an annuity," says Lennon.

Assuming a client invests around 30 per cent of their portfolio in this product, which is about the average amount being invested in similar products in the U.S., Lennon

Continued overleaf

expects investors to have substantial protection from 'sequencing risk'.

While variable-indexed annuities may not appeal to all clients, Stolz believes those investors best suited to this style of product are those who want to both gain and maintain exposure to equity markets, and closely monitor their downside risk of losing money, in equal measure.

"We refer to these clients as 'chicken equity investors', who despite wanting to be in the market, are going to panic if the market goes through any significant correction, or maybe even one that is not so significant," says Stolz.

Given that variable-indexed annuities are relatively complex investments, they're probably unsuitable for inexperienced or unsophisticated investors. And like any investment, the key to understanding whether this type of product is suitable for your clients is knowing their goals, objectives and risk tolerance.

"Only then should you consider exploring this type of product for those investors who want some upside market participation, with some downside protection for their investment," says Stolz.

MAKING SENSE OF PROTECTION OPTIONS

Simply put, a stock market index, like the S&P/ASX 200 Accumulation index, is a measurement of a section of the stock market. It is a tool used by investors to describe the market and to compare the return on specific investments.

What the crediting method – often expressed as 'caps and floors' – does is allow investors to benefit from market growth up to a selected cap, while limiting losses to the selected floor.

Typically set annually at the policy anniversary date, the floors are protection options that investors can choose to limit their sharemarket losses. Meantime, the corresponding 'cap' represents the maximum amount an investor can gain if the sharemarket goes up.

Here's how it works.

A -10 per cent floor may have a cap of +13 per cent. At the end of the first year of the policy, the relevant index is checked.

If the index has achieved a return of 6 per cent, then the investor receives the full 6 per cent of their investment, as the return sits between the cap and the floor.

Here's another example. If the market has dropped by -15 per cent, then only -10 per cent would be applied to the investor's account. That's because -10 per cent equals the floor selected.

Conversely, if the index went up by 15 per cent, then the investor would receive a maximum return of 13 per cent. That's because 13 per cent was the cap amount selected.

In summary, when the index performance is positive during a term, the variable-indexed annuity earns a return, limited by the cap. However, when the index performance is negative during a term, the annuity could lose value to the limit of the floor.

INSURANCE

INSURANCE: GET READY TO RE-ENGAGE

The recent Protecting Your Super package provides planners with the ideal opportunity to re-engage their clients with their insurance needs.

Underinsurance in Australia continues to be a huge issue facing the community, particularly in respect to building financial protections for the future wellbeing of Australians.

Recent research from Rice Warner reveals that 16 million Australians are underinsured, with less than half (42 per cent) of Australians having enough life cover to provide the same standard of living for their families if they were to pass away. In fact, Rice Warner estimates the underinsurance gap to be about $1.83 billion.

A common cause of underinsurance in Australia is the reliance people place on their superannuation for their life insurance needs. However, most super funds only cover the policy holder for a lower amount than is probably required to maintain their standard of living in the event of disability or incapacity.

Add to this the recent Government changes as part of the Protecting Your Super (PYS) package, which affects insurance held in super accounts deemed to be in-active, and the issue of underinsurance in Australia has the potential to get worse. However, it's not all bad news.

The introduction of the Government's PYS package from 1 July 2019, provides financial planners with the ideal opportunity to re-engage with their clients in relation to their insurance needs and safe-guarding their financial future.

The PYS package is designed to protect Australians' super savings from unnecessary erosion by fees and insurance costs that can occur by holding multiple super accounts. Essentially, super fund members with inactive accounts risk losing their insurance cover unless they actively opt-in to keep it.

An account is considered inactive if no amount has been received by the trustee (such as contributions or rollovers) for a continuous period of 16 months. If a contribution or rollover is received into the super account, this will reset the 16-month period.

However, the onus is on the member of an inactive fund to opt-in to retain their insurance cover held within the fund, otherwise, the super fund trustee must cancel the insurance at the 16-month mark.

According to AIA Chief Retail Insurance Officer, Pina Sciarrone, it's important that financial planners are aware that the changes don't just impact MySuper members, who may have been given insurance automatically that they were unaware of. And it also applies to members who have voluntarily taken out personal insurance in a 'choice' fund and in an insurance only superannuation fund.

However, a member will still continue to be protected by insurance for any period for which premiums have already been paid, before the cover is switched off.

"The Government has since introduced a further Bill, called *Putting Members' Interests First*, which will require trustees to only provide insurance to a member of a choice or MySuper product on an opt-in basis where the member is under 25-years-old, or where they have an account balance of less than $6,000," Pina says.

"This is likely to have the unintended consequence of impacting people who have chosen to hold 'risk-only' superannuation products for their insurance cover, where the contributions will cover the premium cost only and won't accumulate an account balance."

The Government is proposing that these requirements commence from 1 December 2019, although the earliest that the Bill can be debated is September.

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CONSIDER THE OPTIONS

Members with inactive super accounts who wish to keep their insurance cover can either:

- contribute or rollover an amount to their super fund to make it active; or
- provide an election in writing to their super fund to maintain their insurance cover.

"If someone wants to keep their cover, they only have to submit a valid written notice to their fund once. The election will apply, even if their account is inactive for a continuous period of 16 months in the future," Pina says.

"However, reactivating an account with a contribution will only resolve inactivity for a further 16 months, before the account becomes inactive again and the cover will again be at risk."

According to Pina, these actions are particularly important for people with individual advised policies held in super, as these policies have been purposefully taken out, and it is unlikely that someone would expect to lose this cover.

According to Shane Jones AFP® – Executive Adviser and Managing Director of Trendlines – the PYS package has significantly raised consumer awareness of insurance within superannuation.

"The financial services sector has actively communicated the risks of an inactive super fund and the implications to insurance policies held within these funds," Shane says.

"In so doing, we've seen increased engagement from these members with their insurance, which is a good thing for the industry, but more can be done."

Shane points to the introduction of the Single Touch Payroll system from 1 July 2019, which he says is a good step forward, as it should finally protect consumers who were at risk of losing their insurance policy held in super, as a result of their employer not making the compulsory SG contributions.

CLIENT ENGAGEMENT

Pina suggests the recent changes to super provide planners with an ideal opportunity to re-engage with their clients about their insurance. Some of the key conversations planners should be having with their clients concerning these recent changes include:

- helping them determine if they are affected by the changes;
- assisting them to assess whether the cover they hold in super funds is appropriate for their needs;
- explaining what they need to do if they do not want to be at risk of losing their insurance cover;
- discussing if they should consider making a contribution or rollover an amount to their super fund to make it active;
- assisting them to inform their fund should they decide to make an election to retain cover in an inactive account; and
- ensuring that they understand that should they choose to do nothing, their insurance may not continue if their account has been inactive for 16 months.

Shane Jones AFP®

Shane agrees, saying they are the types of conversations his practice is already having with clients.

"For example, we're talking to clients about how certain types of insurance, like Total and Permanent Disability (TPD) or income protection, can provide an invaluable safety net to support a client's family due to illness or accident," he says.

"Whether it's to cover off the mortgage, meet funeral costs or provide the family with additional financial support during times of hardship, we are using these discussions with clients to talk about their pre-existing conditions, and to explain that by allowing their policy to lapse, it may affect future claims on a new policy."

However, for clients who see value in taking out insurance, Shane is also using this as an opportunity to engage with them about their insurance needs, including whether to start making contributions or to opt-in. He says either way, both approaches result in the majority of these discussions resulting in advice.

INSURANCE INSIDE AND OUT

When it comes to the pros and cons of holding insurance within super or outside of it, Pina says it's an interesting question.

"Every Australian has life insurance needs, which will depend on what they value and wish to protect. The type and level of protection required changes, based on age, life stage, income, assets and debt."

He says for some clients, default cover in super may be adequate and an affordable alternative – for example, someone with no dependants or mortgage, who simply needs a basic safety net to protect their income in the event of a significant illness or injury. However, this type of cover is not tailored to a person's individual circumstances, and may not have been reviewed by a planner with the person's best interests in mind.

"Others will need the services of a planner to get individualised cover to manage their changing lifestyle needs. Individuals and their families are entitled to assistance with wealth protection if they wish to seek this out, and financial planners are best equipped to provide this," Pina says.

It's a view shared by Shane and while he generally encourages his clients to carry insurance inside their super, he says there are situations where he wouldn't recommend this.

"An example would be 'Own Occupation', which does not meet the *SIS* regulations condition of release and therefore, this policy cannot be owned in super. You do have the ability to link the Own Occupation features to an 'Any Occupation' policy. This way, the majority of the premiums are deducted from super for the Any Occupation policy, and the additional features and benefits of an Own Occupation policy that otherwise would not meet the *SIS* condition of release, are paid for personally," he says.

"This is the type of strategy you would recommend to clients who have a large financial commitment and who are working in a highly specialised field."

Similarly, you can have the basic income protection owned in superannuation and the premium features owned outside of super, where you pay the additional premium. The biggest consideration here is likely to be the agreed monthly benefit versus indemnity, which is dependent on the client's occupation, and consistency of their wages and revenue.

However, for Shane, the advice he offers clients for owning insurance in super isn't simply restricted to the beneficiaries. For him, his prime consideration is to ensure his clients are financially protected.

"The time when our advice is of the highest priority is when our clients' families are young and their expenses and mortgages are high. It's during this stage of life that an insurable event could totally ruin a family's financial position. Therefore, to ensure we have an adequate level of insurance across all policies, we split the payments between superannuation and self-ownership, as the client's budget and objectives direct us."

ISSUES OF UNDERINSURANCE

When it comes to the issue of underinsurance in Australia, Shane feels the industry is working better to address this problem. This includes insurance companies providing discounts on policies held within super, particularly policies that are linked to programs that promote greater health and wellness amongst Australians.

"There are engagement programs that reward users for having a healthy Body Mass Index (BMI), fitness trackers that record your daily steps, through to lifestyle benefit programs, like AIA Vitality, where benefits and discounts on premiums are rewarded to program participants.

"These programs are designed to further engage the client with their insurance policy, through fun activities."

According to Shane, clients involved in programs, like AIA Vitality, where they are able to regularly enjoy the numerous lifestyle benefits their policy provides, are more engaged and focused on their decision-making around insurance.

"Gone are the days of having to make a claim before you're able to see any benefit of owning an insurance policy," he says.

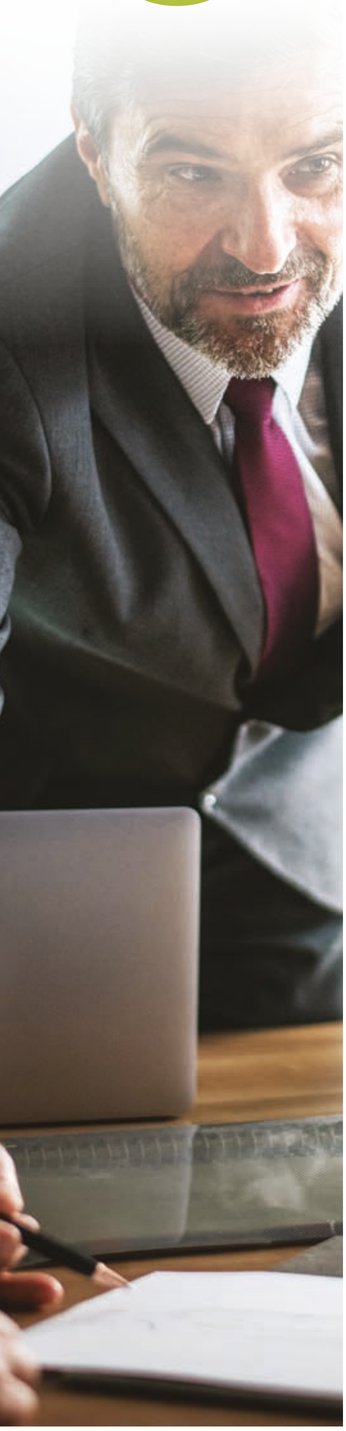
As a result, Trendlines is spending less time on educating clients about insurance and more time on ensuring they have the right levels of cover and the right definitions in place, to provide greater certainty that the insurance policy will be paid at claim time.

"I believe this higher level of awareness by consumers today of insurance, in part due to the recent PYS package, provides an incredible opportunity for planners to ensure their clients have adequate levels of insurance," he says. "The opportunity to provide insurance advice has never been better."

To leverage this opportunity, Shane is increasingly turning to social media as a means of acquiring new clients.

"Social media allows you to directly reach your target market and the better your marketing, the lower your cost of acquisition can be. By doing so, the profession has never been in a better position to reduce the effects and social costs of underinsurance in Australia," he says.

For more on the latest superannuation changes affecting insurance, go to: moneyandlife.com.au/professionals



SELLING YOUR PRACTICE

HAVE YOU PLANNED FOR THE TAX?

Matthew McKee examines four key tax issues that planners need to consider when selling their practice.

Financial planners will be fully aware that there can be a significant difference between a pre-tax return and an after tax return. A decision that is made with only regard to the pre-tax return, can lead to be a person getting less value than they expect.

When it comes to the sale of a financial planning practice, it's worth considering some of the tax issues that may arise on a sale of a practice. This article will explore four aspects of selling a practice:

1. What is being sold?;
2. Assets taxable under the CGT regime;
3. Employees; and
4. GST.

1. WHAT IS BEING SOLD?

A key driver of tax on the sale of assets is the nature of the asset being sold.

Revenue vs capital assets

Assets, effectively, fall within two broad categories for tax: assets taxed under the capital gains tax (CGT) regime and assets that are not. For simplicity, I will refer to assets taxed out of the CGT regime as revenue assets.

The sale of financial practices is somewhat unique to other business sales in that it is often just selected assets that are sold, such as the client list, client records and rights to receive commissions (although this is decreasing under a fee-for-service environment).

Occasionally, a financial planning practice will be sold as a going concern, in which case the assets sold would include goodwill, intellectual property (trademarks and copyright) and possibly, plant and equipment.

Most of the assets sold in respect of a typical sale of a financial practice will be capital assets but, in some cases, there will be revenue assets sold.

There are a lot of differences around the tax treatment of revenue assets and capital assets but, in short, the key observations are as follows:

1. A purchaser tends to prefer acquiring a revenue asset, as it will be deducible immediately or within a relatively short period of time, whereas the expenditure on a taxable asset under the CGT regime is generally only deductible against the capital gain made on the sale of the asset; and
2. A seller tends to prefer an asset to be taxable under the CGT regime, as there can be substantial concessions available. These concessions include the exemption for the sale of assets acquired prior to 20 September 1985, the CGT 50 per cent general discount and the small business CGT concessions. There are also numerous rollovers[1] that are available under the CGT regime that are not available where the profit from the sale of the asset is assessable as ordinary income or other statutory income.

Entity sale vs asset sale

A critical decision to be made when selling a business is whether the sale will be a sale of the underlying business assets (an asset sale) or the sale of the vehicle that operates the business (an entity sale).

With the sale of a financial planning practice, the sale most commonly happens by way of an asset sale but there may be occasions where the seller can insist upon an entity sale.

There can be significant tax differences depending upon whether the sale is an asset sale or entity sale as follows:

1. Where the business is owned through a company, the CGT 50 per cent general discount will not apply to an asset sale, but it will apply to a sale of the shares if

the shares were held by individuals or for their benefit through a trust;

2. The cost base(s) of the assets may be different to the cost base of the units or shares in the entity;
3. In relation to an asset sale, there will be additional tax implications that need to be considered when seeking to access the proceeds from the entity, e.g. in the case of a company, a dividend would need to be paid or the company wound up;
4. The small business CGT concessions may be available on an asset sale but not be available on an entity sale or vice versa; and
5. The entity may have tax attributes (such as franking credits) that would add value for a purchaser if they acquire the entity, but which may not have been reflected in the agreed price.

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The myriad of tax issues on the sale of a financial planning practice can mean that, if not structured properly, the value obtained by the seller may be lower than they expected.

2. ASSETS TAXABLE UNDER THE CGT REGIME

Where an asset is taxable under the CGT regime, the capital gain (the difference between the asset's cost base and the capital proceeds from the disposal) is included in the person's assessable income.

Capital proceeds

The capital proceeds in connection with a CGT event are the sum of any money that the person receives, or is entitled to receive, and the market value of any property they receive, or are entitled to receive, in connection with the CGT event.

Importantly, deferred consideration is included in capital proceeds immediately, even though it may not be received until some future time. This means that, where a purchase price is paid in instalments over a substantial period of time, the seller will be paying tax on money not yet received and, if the purchaser cannot afford to pay it, they will never receive.

Where the purchaser or seller agrees to discharge a liability of the seller, the liability discharged will be usually included in the capital proceeds of the seller.

Continued overleaf

There is also a market value substitution rule that applies, in general terms, to deem the capital proceeds to be the market value of the CGT asset.

CGT 50 per cent general discount

The CGT 50 per cent general discount operates to reduce a person's capital gain by 50 per cent. It is only available to individuals and trusts (but only to the extent that an individual is entitled, directly or indirectly through other trusts, to the capital gain from the trust in the income year).

The CGT 50 per cent general discount is also only available where the asset has been held for more than 12 months at the time of the CGT event.

Small business CGT concessions

There are four main concessions under the small business CGT concessions, which are as follows:

1. The 15 year retirement exemption which, where the conditions for it are met, can result in an exemption of the entirety of the capital gain;
2. The active asset 50 per cent reduction, which results in the capital gain being reduced by 50 per cent;
3. The replacement asset rollover, which can result in the capital gain being deferred for two years or longer if a replacement asset is acquired; and
4. The small business retirement exemption which, where the conditions for it are met, can result in an exemption of up to $500,000 for each CGT concession stakeholder in respect of the taxpayer.

There are 'basic conditions' that must be satisfied in order for any of the above concessions to be available to a taxpayer.

Where the capital gain is made by a company, the amount reduced under the active asset 50 per cent reduction is not subject to tax for the company. The effect of this is if it's paid out to a shareholder as a dividend, it will be a frankable dividend but, as the company did not pay tax on the amount, if there are no surplus credits as a result of the company's other operations, then the payment of the amount can be expected to be an unfranked dividend to be taxed at the shareholder's marginal rate.

If the active asset 50 per cent reduction is accessed, it will usually be better to access the funds sheltered from tax by the active asset 50 per cent reduction by having them paid out by a liquidator on liquidation of the company.

The rules around the availability of the small business CGT concessions are complex and it should never simply be assumed that the concessions are available.

Purchase price adjustments

Provisions that can result in purchase price adjustments (either up or down) can have unintended tax consequences. It is common in the sale of a financial planning practice

for the purchaser to require a clawback of the purchase price if certain conditions are not met.

There is a repayment rule for CGT that reduces a seller's capital proceeds by an amount that they are required to repay to the purchaser after the sale.

However, this will generally not apply to a clawback of the purchase price based on the economic performance of the assets sold following the sale (often referred to as a 'negative earnout').

In such circumstances, there are more complex tax rules that need to be considered to avoid an outcome where the seller is taxed on an amount that they are required to repay.

3. EMPLOYEES

Employees are not always taken on by a purchaser for a sale of a financial planning practice but, when they are, there are tax considerations.

Where a purchaser assumes the liability for the entitlements of employees that are taken on, the ATO considers that the amount assumed is consideration for the CGT event on the sale of the business. The purchaser will receive a deduction when they actually pay the entitlements. The effect of this is that the seller is assessed on the payment but the purchaser receives a deduction when they actually make the payment.

There are three general approaches adopted to overcome this seeming inequity:

1. The purchase price is reduced by the amount of the employee entitlements that the purchaser takes on;
2. There is a reduction in the purchase price for the amount of the employee entitlements, but adjusted to take into account the tax benefit the purchaser will obtain when it pays the entitlements; and
3. The entitlements are paid out prior to the business being sold.

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A critical decision to be made when selling a business is whether the sale will be a sale of the underlying business assets (an asset sale) or the sale of the vehicle that operates the business (an entity sale).

Each approach has a different tax outcome.

4. GST

GST is imposed where a person makes a taxable supply. Supplies that are input taxed supplies (e.g. residential premises that are not new residential premises) or financial supplies (e.g. shares in a company) are not taxable supplies and no GST is payable.

A share sale or unit sale is a financial supply. As such, with an entity sale, there will be no GST payable.

With an asset sale, GST will nearly always be payable, unless the going concern exemption is available and the parties choose to apply it. There are a number of conditions for the going concern exemption to apply but the key one, and a condition that can be difficult to satisfy for the sale of a financial planning practice, is that the seller must supply everything necessary for the continued operation of the enterprise.

The requirement that the seller supply everything necessary for the continued operation of the enterprise will usually require that all existing leases in the business be assigned. How this can be effectively achieved varies from state to state.

Importantly, the going concern exemption simply overcomes the need for the seller to pay GST and the purchaser to claim the GST back from the ATO through input tax credits. That is, the primary benefit of the exemption is that it removes a potential cash flow detriment for the purchaser. Accordingly, the application of the going concern exemption is usually driven by the purchaser and not the seller.

CONCLUSION

The myriad of tax issues on the sale of a financial planning practice can mean that, if not structured properly, the value obtained by the seller may be lower than they expected.

Understanding the tax issues involved when negotiating a sale is critical to ensuring that the expected value is obtained.

Matthew McKee is a Partner, Taxation Law at Brown Wright Stein Lawyers.

FOOTNOTES

1. A rollover has the effect of deferring the taxing point to some future time.

IN THE COMMUNITY

THE CAN DO APPROACH

After participating in her first Future2 Wheel Classic ride last year, **Kelli Willmer** is backing up again this year. She talks to *Money & Life* about taking on the 819km six-day ride.

WHY DID YOU DECIDE TO BACK UP AGAIN FOR THIS YEAR'S RIDE?

Last year, I purchased my first bike with the sole idea of using it to add some variety to my marathon training. With quite a few cyclists in the Iress office who had participated in the Future2 Wheel Classic previously, I had heard good things about their experiences. I thought this could be a great opportunity to be involved in supporting the Future2 Foundation. However, I still had the Berlin and Melbourne marathons to run and I didn't think I could be ready in time for the ride. So, I decided I wasn't going to put my hand up to ride that year.

But with a great deal of encouragement, I found myself signing up to join the ride for the last two days, which saw us start in the town of Berry, in the Shoalhaven region of the New South Wales, and finish in Sydney at the FPA Professionals Congress. Although I had little time to train on the bike, I took the challenge on and, with the wonderful support of the other riders, I finished both days feeling proud of what I had accomplished.

This really helped motivate me for this year.

In fact, for 2019, I decided to take a year off from running marathons to focus on building my cycling skills and strength, with the sole purpose of being able to join the Future2 Wheel Classic for the full six days. Suffice to say, I have caught the cycling bug!

WHAT DOES THE FUTURE2 WHEEL CLASSIC MEAN TO YOU?

It's very important to me to be able to give back to those who are in a less fortunate position. By being a part of the Future2 Wheel Classic, I'm helping to ensure that young Australians continue to get the chance to take on opportunities they may not have had provided to them previously.

It's also fantastic to spend time with my colleagues in the financial advice profession. We try not to talk too much shop, either on or off the bikes, but I've really enjoyed building deeper relationships with my clients and others in the profession. There's a great atmosphere on the ride.

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By being a part of the Future2 Wheel Classic, I'm helping to ensure that young Australians continue to get the chance to take on opportunities they may not have had provided to them previously.

WHAT DO YOU EXPECT TO BE THE MOST CHALLENGING ASPECT OF THE RIDE?

My biggest challenge will be the many climbs we will face throughout the six days, with some easy to tough gradients. Being relatively new to cycling, my leg strength is an area I'm still working on. It'll also be challenging to keep the legs fresh, so that we can take on each long day in the saddle. This year's ride will certainly be a test of endurance.

HOW ARE YOU PREPARING FOR THE 819KM RIDE?

I'm currently combining an indoor training plan with regular weekend rides through a nearby national park. The indoor sessions allow me to focus on aerobic endurance, whilst the outdoor rides give me the chance to tackle some pretty decent climbs. This helps to ensure that I'm mentally ready, as well as physically.

Once the days get longer, I'll begin to add in commutes to work and longer rides over multiple days on the weekends. Throw in a couple of one day events that are 100km plus, and I hope to be ready once November rolls around.

WHAT DID YOU LEARN FROM LAST YEAR'S RIDE?

Firstly, that pain is always temporary and mental strength is everything! We did some very tough climbs on both days I rode and by staying mentally strong and positive, I reached the top. Looking back from the crest of the hill and recognising what you've achieved, quickly takes away the discomfort you may have endured on the way up.

Secondly, allow others to support you and give advice, so you can learn from their experience. Ask a lot of questions. This was invaluable to me.

Thirdly, make sure you eat and drink enough throughout the day. It's mind-blowing the amount of calories you burn. And finally, immerse yourself within the group, have a laugh and enjoy yourself.

WHAT DO YOU HOPE TO ACHIEVE BY PARTICIPATING?

My first goal is to continue to raise awareness of the amazing work the Future2 Foundation does in supporting young Australians who are experiencing hardship. I also hope I can support others on the ride – whether that's through providing motivation, celebrating their successes or sharing my own tips and experiences (and maybe some snacks!).

On a personal level, I'm hoping to finish the full six days strong and to push myself further beyond my own current limits – my next big goal is to ride the iconic climbs of the French Alps.

WHAT ADVICE DO YOU HAVE FOR OTHER WOMEN CONSIDERING JOINING YOU FOR THIS YEAR'S RIDE?

Too often we tend to ask ourselves: 'What if we can't?' Instead, what we should be asking ourselves is: 'What if we can?'

I will always be grateful to the senior leaders I work with who encouraged me to join the Future2 Wheel Classic, and to all the participants on the ride who helped me last year and offered their advice and support.

If I hadn't stepped completely out of my comfort zone, I would've missed a great opportunity to meet some amazing people, support a great cause and to have discovered a new hobby that continues to challenge me.

Embrace the chance to challenge yourself – you just never know where it might take you!

Kelli Willmer is Manager, Practice Solutions Team, Australia at Iress. Iress is silver partner of the 2019 Future2 Wheel Classic.

Going the full distance: Kelli Willmer is ready to embrace the challenge of riding the full six days.

DON'T SWEAT THE SMALL STUFF

In the lead up to the 2019 FPA Professionals Congress (27-29 November), the Future2 Foundation is calling for cycling and hiking enthusiasts to participate in one of two challenges this year.

The annual **Future2 Wheel Classic** departs from Melbourne's Federation Square on 22 November. The six-day ride will cover a distance of 819km, before finishing back in Melbourne on 27 November.

The route will take in the picturesque Daylesford Ranges, before cycling through the goldfields of Ballarat and then the rolling hills around Apollo Bay.

Riders will cycle the famous Amy Gillett Fondo route before heading along the Great Ocean Road. There will be an overnight stay in Queenscliff, before a ferry ride across to Sorrento and a final ride along the Portsea beaches around Port Phillip Bay back to Melbourne.

Riders can also opt for a shorter three or four-day ride.

And for those preferring to keep their feet firmly on the ground, Future2 has organised a five-day hiking challenge taking on the Grampians mountain ranges.

Now in its third year, participants in the **Future2 Hiking Challenge** will head to the Grampians National Park on 23 November.

Over the next four days, participants will hike the spectacular sandstone ridges, peaks and valleys of the Grampians, before heading back to Melbourne on 26 November.

For Future2 Challenge participants, there is a fundraising target. For more information, go to future2foundation.org.au or email: events@fpa.com.au

CPD MONTHLY

NEW CENTRELINK RULES ON LIFETIME INCOME STREAMS

William Truong

IOOF

This article is worth
0.5 CPD hours

ASIC Knowledge Area
Financial Planning

FASEA CPD Areas
Technical competence

INCLUDES:

- Capital Access Schedule requirements
- Reversionary lifetime income streams
- Assessment day
- Threshold day

Since 1 July 2019, amendments have been made to Centrelink rules governing the provision of lifetime income streams.

Lifetime income streams are intended to help people use their retirement savings in a way that supports their specific needs and helps manage the risk of people running out of retirement savings.

Lifetime income streams can include products that defer making payments for a period, for example, until someone reaches age 85 or later. The changes to the *Superannuation Industry (Supervision) Regulations 1994* are designed to allow product providers to innovate and create new lifetime income products to benefit Australians who have already reached or who are approaching retirement.

CENTRELINK ASSESSMENT

An asset-tested income stream (lifetime) is a new category of income stream. A lifetime income stream purchased on or after 1 July 2019 is subject to different means testing rules to those purchased prior to 1 July 2019.

Grandfathering provisions will apply to lifetime income streams that commence prior to 1 July 2019.

A lifetime income stream needs to continue for the lifetime of one or more persons and must have payment amounts which are pre-determined with regard to the age, life expectancy and mortality of the primary beneficiary. The pool of assets supporting the income stream needs to be held for the collective benefit of all the fund's income stream recipients.

A lifetime income stream cannot be a fixed term annuity, defined benefit income stream, nor an asset-test exempt income stream, for example, a term allocated pension.

Lifetime income streams can be purchased from super or non-super monies, however, in this article, we will only consider those commenced with super monies.

INCOME ASSESSMENT

Since 1 July 2019, the new rules assess 60 per cent of payments from lifetime income streams. This reflects the fact that part of the payments made by the income stream are a return of a person's initial investment amount, and therefore, not income.

For example, if a lifetime income stream pays income of $1,000 per year, then $600 per year will be assessed under the income test.

The new rules generally produce higher assessable income compared to the grandfathered rules, which allows a deduction amount, that is based on the purchase price and life expectancy, to reduce assessable pension payments.

For deferred lifetime income streams, there is no income assessment during the deferral period, however, the above assessment will apply once income payments commence.

Hence, a better Centrelink outcome may arise for income-tested pensioners who have purchased a lifetime income stream before 1 July 2019. Refer to Table 1.

Example 1: Gary – income test
Gary, age 68, is a homeowner who is affected by the income test and has $100,000 in super to invest in a lifetime income stream.

We compare the income test assessment for Gary who uses his $100,000 to start a lifetime income stream under the new rules from 1 July 2019 against the grandfathered rules.

We assume that:

- the income stream payment is $5,458[1] in the first year with indexation; and
- the Centrelink deductible amount is $5,938 per year, for example, the purchase price of $100,000 / life expectancy of 16.84 years).

In this example, more income will be

Table 1: Comparison of income test treatment

Grandfathered income test before 1 July 2019	New income test from 1 July 2019
Total payments less deductible amount Deductible amount = purchase price less residual capital value (if any) / relevant number	*Non-deferred income stream:* 60% of payments are assessed
	Deferred income stream: 60% of payments are assessed once the deferral period ends and payments commence

assessed under the new test than under the grandfathered test, due to the deductible amount reducing the assessable pension payments. See Table 2.

Chart 1 is an income test comparison between new and grandfathered rules over time.

Throughout the term of the income stream, the grandfathered income test provides a lower assessable income for Gary.

Whether Gary's entitlements are calculated under the income test or the assets test will determine if the purchase of a lifetime income stream will benefit Gary.

ASSETS TEST ASSESSMENT

The assets test applied will depend on whether the lifetime income stream complies with relevant superannuation law. One of the new requirements in superannuation law is that, to qualify for earnings tax concessions, innovative lifetime income streams have to meet 'Capital Access Schedule' (CAS) requirements[2].

The CAS refers to the limits placed on the amount that an investor can

Table 2

Purchased before 1 July 2019	Purchased from 1 July 2019
Assessable income = $5,458 – ($100,000/16.84) = $5,458 - $5,938 = nil (in first year)	Assessable income = 60% x $5,458 = $3,274 pa

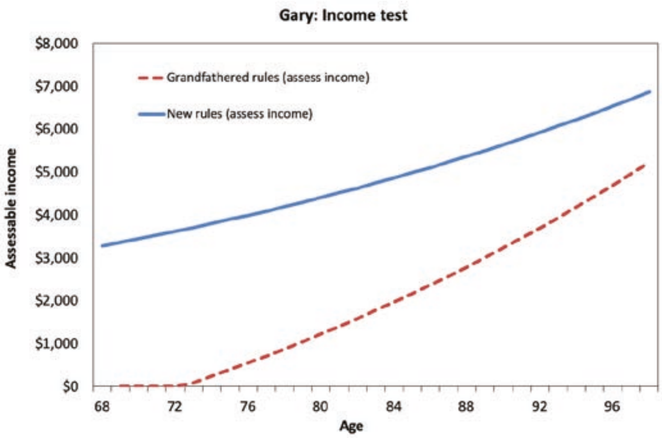
Calculation 1

$$\left\{ \frac{\text{Access amount for the income stream at the time of the commutation}}{\text{Life expectancy period for the income stream}} \times \text{Remaining life expectancy} \right\} \textbf{ MINUS } \text{Previously commuted amounts}$$

recover from their lifetime income stream should they withdraw from the product (the surrender value) or should they die (the death benefit). The CAS only applies to lifetime income streams purchased with super money.

The person's life expectancy and limits to amounts that can be commuted, will be an important consideration, especially if a person wishes to leave an inheritance for their family or they have health issues.

Chart 1: Income test comparison between new and grandfathered rules over time



CAS rules

Under the CAS rules and depending on the contract, the access amount may be paid 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 their life expectancy.

If the beneficiary dies after the first half of their life expectancy, only a portion of the access amount may be payable. See Calculation 1 (above).

Where:

'Previously commuted amounts' is the total of any other commutations from the income stream before the time of the commutation.

'Remaining life expectancy' are the days remaining in the life expectancy period for the income stream after subtracting the number of days in the period:

a. starting on the retirement phase start day for the income stream, and

b. ending on the day of the commutation.

The 'access amount' at a particular time for a benefit supported by a superannuation interest (within the meaning of the *1997 Tax Act*), is the total of:

a. the maximum amount payable,

Continued overleaf

if the benefit was commuted on the retirement phase start day for the benefit, as determined by the contract or rules for the provision of the benefit, and

b. any instalments paid for the benefit after the retirement phase start day for the benefit and before the access time.

In this article we will only explain income streams which meet the CAS requirements.

SUPER PURCHASED LIFETIME INCOME STREAMS WHICH MEET CAS RULES

Lifetime income streams that meet the CAS rules will be assessed as 60 per cent of the purchase amount from the 'assessment day'. This will continue until the client reaches their 'threshold day'. This day is assessed as the life expectancy of a 65-year old male, which is currently age 84, or alternatively, for a minimum of five years. After this point, 30 per cent of the purchase amount will be assessed. For further details, refer to Table 3.

Example 2: Luke - asset test
Luke, age 68, is affected by the asset test and has an account-based pension of $450,000, as well as $100,000 in super, which he plans to invest in a lifetime income stream that meets the superannuation law CAS requirements.

We compare the asset test assessment if Luke uses his $100,000 to start a lifetime income stream under the new rules against the grandfathered rules.

We assume that:

- the income stream payment is $5,458[1] in the first year with indexation; and
- the Centrelink deductible amount is $5,938 per year. For example, the purchase price of $100,000/ life expectancy of 16.84 years).

In this example, Luke is assessed based on the assets test. Table 4 details how the new rule provides a lower asset assessment than the grandfathered rules, which translates to a higher Age Pension during the first year.

However, when we look at Chart 2, which summarises the asset test over a longer time, we find that while the new assets test may provide lower assessable assets for the first seven years, after this initial period, the grandfathered assets test produces lower assessable assets.

As can be seen in Chart 2, under the new rules, the assets test assessment will drop to 30 per cent of the purchase price after 16 years but will not reduce to zero, unlike the grandfathered assets test at a similar point in time.

Chart 3 illustrates that the new rules produce a greater Age Pension entitlement because of the lower assets test for the first seven years. After this time, we find the grandfathered rules provides a higher Age Pension. For Luke, his Age Pension will continue to be affected by the assets test during the term of the projection, rather than the income test.

FACTORS TO CONSIDER

For clients affected by the assets test, such as Luke, there may be a short to medium-term benefit from purchasing a lifetime income stream after 1 July 2019, because the lower assets test assessment will translate to a higher pension entitlement.

For asset-tested clients considering purchasing a lifetime income stream, a further important consideration is that after the initial years, certain clients may have their Age Pension revert to being assessed under the income test due to their lower levels of assessable assets later in retirement. At that later stage, their Age Pension entitlements may be less than what they would receive under the current income test rules as discussed above.

REVERSIONARY LIFETIME INCOME STREAMS

If the lifetime income stream is reversionary, the following definitions apply:

'Assessment day' (applicable to the reversionary beneficiary)
The 'assessment day' depends on

Table 3: Comparison of asset test treatment

Grandfathered asset test	New asset test
Purchase price – (deductible amount x term elapsed) Deductible amount = (purchase price less residual capital value) / relevant number	60% of the purchase price counted from 'assessment day' to 'threshold day'. Assessment day is the later of: · the day the client first satisfies a condition of release; · the day the first amount was paid for the income stream; · the day the client acquired the income stream, if no amount of money is identifiable as having been used to pay for the income stream, for example, collective defined contribution streams. From 'threshold day', which is currently the later of either age 84 or a minimum of five years from 'assessment day', the income stream is assessed at 30% of the purchase price thereafter. Where the lifetime income stream is reversionary, there are additional definitions for 'assessment day' and 'threshold day'.

Table 4: Effect of the new rules on the Age Pension entitlement

	Grandfathered asset test	New asset test
Lifetime income stream	$100,000 (asset counted in first year)	$60,000 - which is 60% of the purchase price counted from age 68 to 84, and 30% of the purchase price thereafter
Account-based pension	$450,000	$450,000
Total assets	$550,000	$510,000
Age Pension under the asset test during the first year	**$1,714**	**$4,834**

Chart 2: Asset test comparison between new and grandfathered rules (over time)

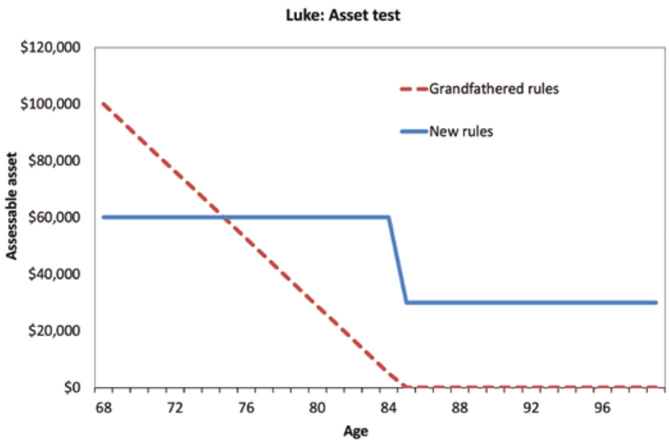
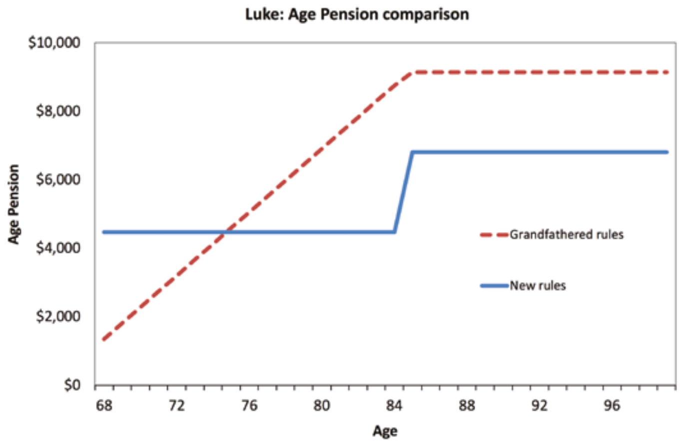


Chart 3: Age Pension comparison between new and grandfathered rules over time



whether the income stream was already being paid to the primary beneficiary at their date of death or if the income stream is a deferred income stream where payments have not yet commenced.

1) If the lifetime income stream reverted to a reversionary beneficiary on or after the 'commencement day' (commencement day is the first day of the period to which the first payment of the income stream relates), the reversionary beneficiary's assessment day is the day of the reversion.

   For example, Mandy purchases a lifetime income stream with superannuation monies on 1 July 2019. Her income stream makes immediate payments. After Mandy's death, the income stream reverts to a reversionary beneficiary, Ben, on 1 July 2020. As the income stream has already started making payments, it has already reached its commencement day. Therefore, Ben's assessment day is 1 July 2020, the day the income stream reverted.

2) If the lifetime income stream reverted to a reversionary beneficiary before the commencement day in relation to the income stream, their assessment day is dependent on the following:

a. If the commencement day is before the day the reversionary beneficiary first satisfies a condition of release, then their assessment day is the commencement day.

b. If the commencement day is after the day the reversionary beneficiary first satisfies a condition of release, their assessment day is the later of the:

- day of the reversion
- day the reversionary beneficiary first satisfies a condition of release.

For example, John purchases a deferred lifetime income stream with superannuation monies. His lifetime income stream will start making payments on 1 July 2025. John dies on 1 July 2020 and his lifetime income stream reverts to his spouse, Linda. As the income stream has not started making payments, it has not reached its commencement day. Linda first satisfies a relevant condition of release on 20 September 2023. Therefore, Linda's assessment day is 20 September 2023, the day she first satisfied a relevant condition of release (this day is after the date of reversion).

THRESHOLD DAY (APPLICABLE TO THE REVERSIONARY BENEFICIARY)

The threshold day applicable to the reversionary beneficiary is as follows:

1) if a lifetime income stream reverts to a reversionary beneficiary and the primary beneficiary's assessment day for the income

Continued overleaf

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QUESTIONS

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1 New Centrelink assessment of lifetime income streams from 1 July 2019 applies to which of the following?

a. Deferred lifetime income streams.
b. Market linked income streams.
c. Term life income streams.
d. Defined benefit income streams.

2 Which of the following is false?

a. Grandfathering applies for lifetime income streams purchased prior to 1 July 2019.
b. All lifetime income streams will have new means test assessments from 1 July 2019.
c. Lifetime income streams can be purchased with super and non-super money.
d. Pool of assets supporting the income stream needs to be held for the collective benefit of all the fund's income stream recipients.

3 The income test of new lifetime income streams from 1 July 2019 allows for a deductible amount based on life expectancy. True or false?

a. True.
b. False.

4 In relation to the asset test, which of the following statements is false?

a. The asset test applied will depend on whether the lifetime income stream complies with relevant superannuation law (capital access schedule 'CAS').
b. Lifetime income streams that meet the CAS rules will be assessed as 60 per cent of the purchase amount from the 'assessment day' and will continue until the client reaches their 'threshold day'.
c. Lifetime income streams that meet the CAS rules will be assessed as 30 per cent of the purchase amount from the 'assessment day' and will continue until the client reaches their 'threshold day'.
d. After the threshold day, 30 per cent will be assessed.

5 In applying the asset test, the 'threshold day' is always five years from the assessment day. True or false?

a. True.
b. False.

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stream had already occurred, then:

a. if the original owner's assessment day for the income stream had occurred before their death, the threshold day that applied or would have applied to the original owner of the lifetime income stream continues to apply to the reversionary beneficiary.

For example, Vincent purchases an immediate lifetime income stream on 1 July 2019 at age 70 (date of birth 7 October 1948). His 'assessment day' for the income stream is 1 July 2019. His threshold day is the day before he turns 84, which is 6 October 2032.

Vincent dies on 1 July 2025, and the lifetime income stream reverts to Jacky. As Vincent had already reached his assessment day, Jacky's threshold day is the same as Vincent's, 6 October 2032.

b. if the income stream was being assessed under the assets test at 30 per cent of the purchase amount (therefore the primary beneficiary threshold day has occurred) prior to the reversion, then it continues to be assessed at 30 per cent for the reversionary beneficiary.

c. if the reversionary beneficiary's assessment day occurs after their threshold day, an asset-test concession only occurs after the reversionary beneficiary's assessment day and it is the higher concession (30 per cent of the purchase price).

2) if a lifetime income stream reverts to a reversionary beneficiary and the deceased had not yet reached their assessment day, then the reversionary beneficiary's threshold day is the later of age 84 or five years from the reversionary beneficiary's assessment day.

CONCLUSION

Clients may require income stream products that protect against longevity risks. This means planners must be aware of the new Centrelink assessment rules that apply from 1 July 2019 for these lifetime income streams, so you can consider what is best for your clients.

William Truong, Technical Services Manager, IOOF TechConnect.

FOOTNOTES

1. Assumptions: based on a Challenger Lifetime annuity quoted on 18/3/2019 for a 68-year old male with a super investment amount of $100,000, monthly payments in the first year totalling $5,458 for Liquid Lifetime Flexible (maximum withdrawal period of eight years), CPI indexation and nil adviser fees.
2. Superannuation Industry Supervision Regulation 1997 Regulation 1.06A(2).

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