OCTOBER 2019
VOLUME 31 | ISSUE 09

MONEY & LIFE

The magazine for FINANCIAL PLANNING PROFESSIONALS

workplace engagement

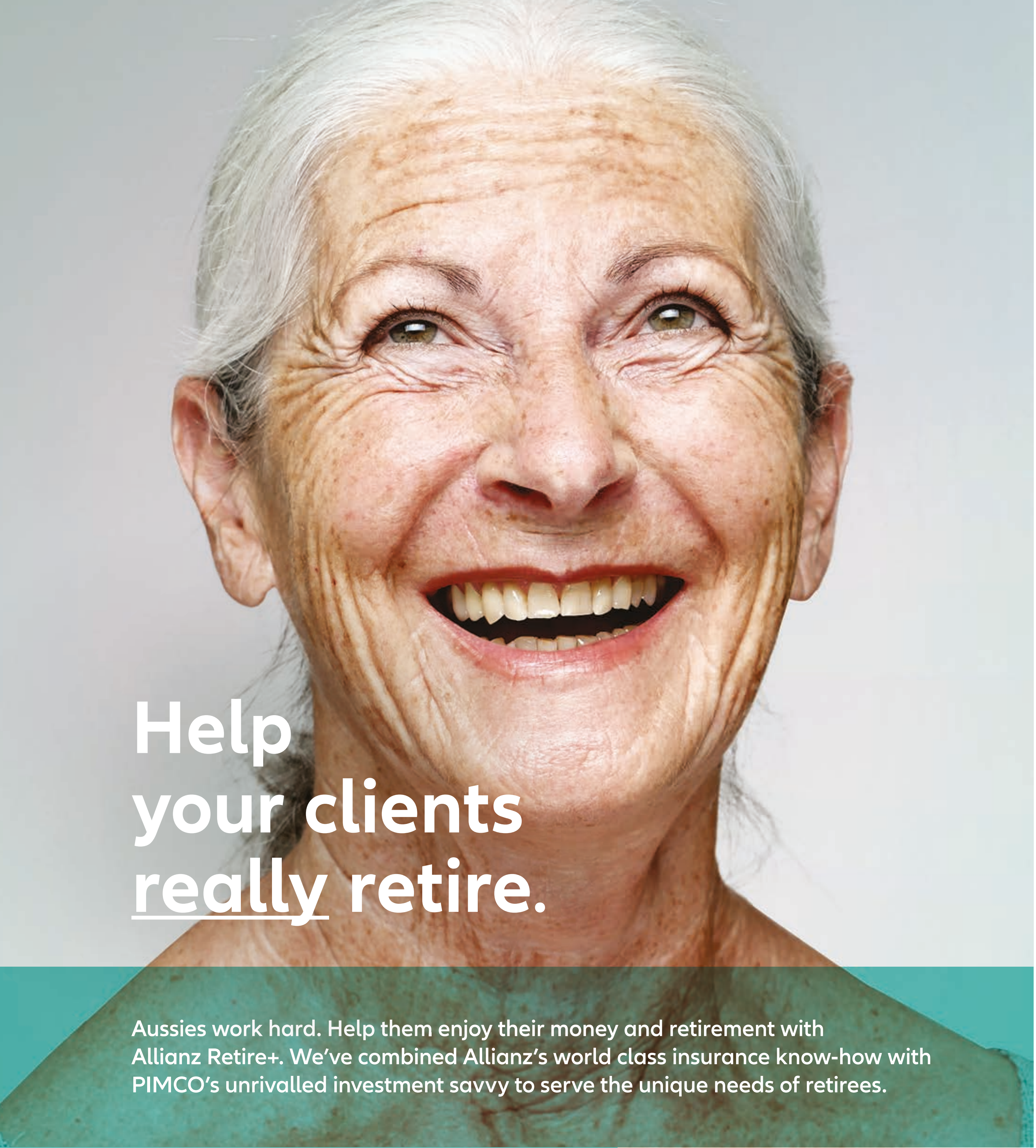
MICHELLE SALES ON SHIFTING TEAMS FROM DISCONNECTED TO CONNECTED

Phil Billingham CFP®

RETAIL DISTRIBUTION REVIEW AND THE U.K. EXPERIENCE

+ CONTRARIAN INVESTING | DOWNSIZER CONTRIBUTIONS | 2019 CONGRESS
THRIVING WITH CHANGE | SOCIAL RESPONSIBILITY

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA



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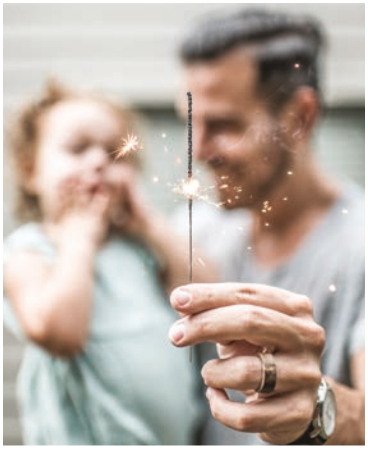

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Paper + Spark is the custom publisher of Money & Life (www.moneyandlife.com.au) for the Financial Planning Association of Australia (FPA). We are a specialist digital content marketing and social media agency with deep Financial Services consumer and B2B experience. We create brand, digital, social and content strategy that leads to reaching the right audience at the right time via the right channel to keep you agile and relevant in a fragmented media landscape. Because purposefully agile/great brands stand for something, while never standing still.

FOCUS

ONE SHARED MESSAGE

Last month, the FPA and the profession achieved some big advocacy wins.

FASEA TIMELINES

The Government announced its intention to make changes to the FASEA timelines to restore the two-year period to pass the exam by extending the deadline for 12 months to 1 January 2022. It also announced an extension to the deadline for meeting the FASEA education standard by 24 months to 1 January 2026.

These results mirror the recommendations we put forward through our joint advocacy efforts with the AFA. They were also amplified by hundreds of members who took this shared message to their local MP.

I want to particularly acknowledge all the FPA members, including many of our Chapter Chairs, who personally advocated with their local MP. You each embody the spirit and notion of 'one message, many voices'. Together, we are helping to ensure a solid and fair framework for our profession.

These announcements have given many of us some relief by offering a more reasonable implementation timeline. However, please remember the immediacy of the financial adviser exam and education requirements remain. I strongly encourage you to stay focused with your studies and undertake the exam as soon as you're able.

FURTHER CFP® CERTIFICATION COURSEWORK AWARDED CREDITS

Last month, we also learnt the news from FASEA that it has finally accredited the CFP® Certification Program 1-4 coursework, which commenced in 1999. This means the whole CFP® Certification Program coursework (4-unit and 5-unit program) that has been running for 20 years, has now been formally accredited by FASEA as that of a post-graduate level. FASEA has also awarded two recognised prior learning (RPL) credits to help in the transition to degree equivalence.

Anyone who has obtained the CFP® designation in the last 20 years, or obtains it over the next five years by completing all units in the program, will be eligible for two RPL credits towards the FASEA standard. For those wanting to complete a Masters, you could obtain up to four credits.

RETHINK, REIMAGINE AND REIGNITE AT CONGRESS

We're on the home stretch to the FPA Professionals Congress (27-29 November). This is an important chance for our professional community to come together in a strong demonstration of unity.

I hope you can join me at our flagship event to celebrate the future of our profession and support each other in person. The line-up of speakers and sessions is outstanding, and that's because it's a program designed for financial planners, by financial planners.

I look forward to seeing you there.

Dante De Gori CFP®, CEO

Follow Dante on Twitter @ddegori10

News

FASEA EXTENDS CREDITS FOR CFP® COURSE WORK

The Financial Adviser Standards and Ethics Authority (FASEA) has extended its recognition of CFP® course work prior to 2003, meaning that planners who commenced the CFP 1-4 program course work to attain the CFP® designation after 1 July 1999 and before 31 December 2003, are eligible to be awarded two credits recognition for prior learning in an approved Graduate Diploma.

The approval is recognition of the course content and assessments planners were required to undertake to successfully complete the CFP® program.

A maximum of two credits towards completion of higher education requirements can be awarded for an existing planner who has completed one or more of the prescribed approved courses to attain a professional designation. These credits are in addition to any credits available for completing other relevant studies.

In making the announcement, FPA CEO Dante De Gori CFP® said the decision acknowledges those financial planners who started before Semester 2, 2003, and subsequently completed the FPA's four unit CFP® Certification Program.

"The FPA submitted all other additional pathways prior to 2003 for CFP® Certification to FASEA for accreditation, and we're delighted that credits have been awarded for this pathway. This decision by FASEA recognises that the CFP® designation continues to be the globally recognised gold standard in advice," De Gori said.

"Of course, we still wait for FASEA to approve the outstanding pathways we have applied for, so that all CFP® professionals receive the recognition they deserve."

FASEA DEADLINES EXTENDED

The Government has announced it will restore the full two-year period for financial planners to pass the FASEA exam by extending the deadline for 12 months to 1 January 2022, while also extending the deadline for meeting the FASEA education standard by 24 months to 1 January 2026.

In acknowledging the announcement made by the Assistant Minister for Superannuation, Financial Services and Financial Technology, Senator Jane Hume, FPA CEO Dante De Gori CFP® said the Government's decision to announce its intention to extend the original deadline means existing planners are no longer being unfairly disadvantaged by delays from FASEA in rolling-out its exam and its new Code of Ethics.

"The Government has done the right thing by proposing to extend the deadlines for all existing planners to sit and pass the FASEA exam and meet the education standard. The proposed new deadlines will give existing planners more time to study, ensuring that these reforms are successful at raising the bar across the profession," De Gori said.

"We're pleased that Minister Hume has listened to the feedback from our members and has been willing to work with the FPA and AFA jointly to deliver a better outcome for all financial planners and their clients."

The FPA congratulates the following members who have been admitted as

CERTIFIED FINANCIAL PLANNER® PRACTITIONERS

NSW

David Cuff CFP®
AMP Advice

Gareth Tomlinson CFP
Catalyst Advise

Quyen Quach CFP®
Bridge Private Wealth

Nicholas Lloyd CFP®
ITL Financial Planning

Bowen Tang CFP®
Commonwealth Financial Planning

VIC

Belinda Slinger CFP®
Commonwealth Financial Planning

Lynda Cross CFP®
LUCRF Super

Kael Plummer CFP®
Shadforth Financial Group

WA

Alisha Bonomi CFP®
Stewart Symonds and Partners

Isabella Sala CFP®
Commonwealth Bank of Australia

News

CONSUMERS SEE VALUE IN FINANCIAL ADVICE

New research from ASIC has revealed 41 per cent of Australians intend to get financial advice in the future, which supports findings by Investment Trends in September 2018 that showed 51 per cent of Australians have an unmet advice need.

However, while the findings in the ASIC report, *Financial advice: What consumers really think* (ASIC Report 627), indicated that 41 per cent of Australians would seek advice, the report also revealed that many consumers wouldn't seek advice due to factors including high costs, industry mistrust and a perception that financial advice was only for the wealthy.

Dante De Gori CFP®

"However, the good news for the industry is that consumers who had recently received financial advice had more positive attitudes towards financial planners than those who had not," said ASIC Commissioner, Danielle Press.

"Although not all Australians need financial advice, it is imperative that people wanting advice when making critical financial decisions are able to access high quality advice and equally, feel confident that the advice is in their best interests."

FPA CEO Dante De Gori CFP® welcomed the findings, which confirmed previous research that consumers who had received advice had a more positive view of the financial planning profession.

The research found that consumers generally seek financial advice for investments (45 per cent), retirement income planning (37 per cent), superannuation (31 per cent), budgeting or cash flow management (22 per cent) and aged care planning (18 per cent).

Interestingly, the research also uncovered that consumer use of digital or automated advice (often referred to as robo-advice) remained low at 1 per cent.

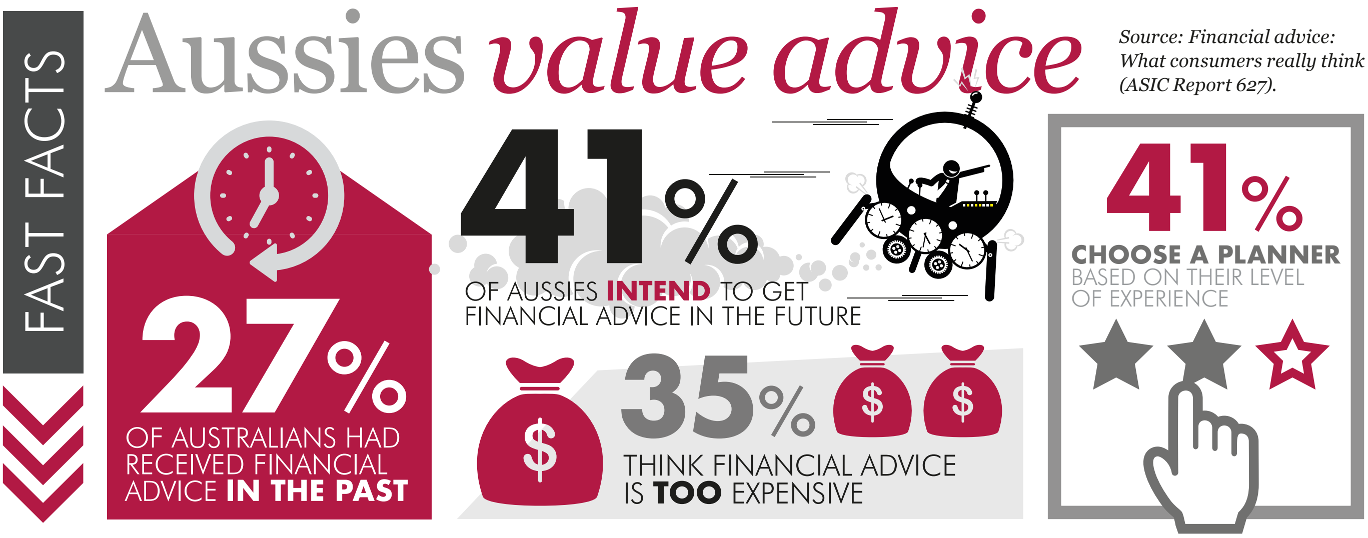
However, De Gori acknowledged that the ASIC research also indicated that barriers, such as the costs of financial planning advice, remained an issue for the financial planning profession.

"The FPA remains committed to working co-operatively with financial planners, the Government and the industry more broadly, to support the growth of our profession for the benefit of consumers," he said.

Press added that financial planners have an important role to play in helping consumers improve their financial position, saying there was real opportunity for the advice profession to rebuild trust by reorienting itself and putting consumers at the heart of its services.

ASIC Report 627 was based on an online survey of 2,545 participants, with the results weighted to ensure the results were representative of the Australian population.

To read the report in full, go to asic.gov.au



Source: Financial advice: What consumers really think (ASIC Report 627).

GET READY FOR

New Horizons at 2019 CONGRESS

'New Horizons' – the theme of the 2019 FPA Professionals Congress – is about facing the future and adapting to change collectively as a profession.

Michelle Tate-Lovery CFP®

With just over one month to go, the 2019 Congress is nearly here (29-29 November). With careful planning over 11 months and with a high number of registrations to date, this issue of *Money & Life* magazine includes an overview of the Congress program.

We have organised three sensational keynotes – including technological disrupters, a high calibre global planner panel and an inspirational story from the first and only Australian athlete to win both Summer and Winter Paralympic medals – who will explore shifting the mindset.

Melbourne

We also have business leaders who will discuss how they have overcome obstacles and repositioned their businesses to excel, while a range of motivational speakers will talk about finding flow, and how to be your best self.

Delegates have a choice of 24 workshops to attend, covering four different streams. Hear from subject matter experts on business models, pricing, compliance efficiency, regulation, and delivering best practice advice though peer-to-peer learning.

Making the most of your visit to Melbourne, you are invited to start the conference on Wednesday 27 November by joining either a master class for business owners (FPA Professional Practices) or paraplanners, before attending the opening keynote presentation.

Whilst the program balances learning and inspiration, there is also so much to gain by attending networking events, where you can engage in deeper conversations with like-minded people around what they are doing in their practices to tackle common challenges. Be sure to attend the Welcome Function, Women in Wealth Breakfast and the Future2 Celebrations at the St Kilda Sea Baths, where we will be announcing the FPA Award Winners.

Congress is all about gathering our professional community together to continue to have conversations that address the main challenges facing practitioners and financial services businesses. Congress is about exploring the latest trends, transforming your thinking to improve the way you do business, and finding solutions to help you better serve and advise clients.

Congress 2019 will be packed with value and relevance. It will be transformative. It will help you stay focused. And it will foster excitement by looking over the horizon to see what the future of advice holds.

Michelle Tate-Lovery CFP® is Chair of the Congress Committee. For more information, go to fpacongress.com.au

2018 CONGRESS DELEGATES SAID…

"FPA Congress is our choice. So many great choices for sessions, including personal and professional development. Great to be around other professionals and learn from speakers we would not normally be able to access."

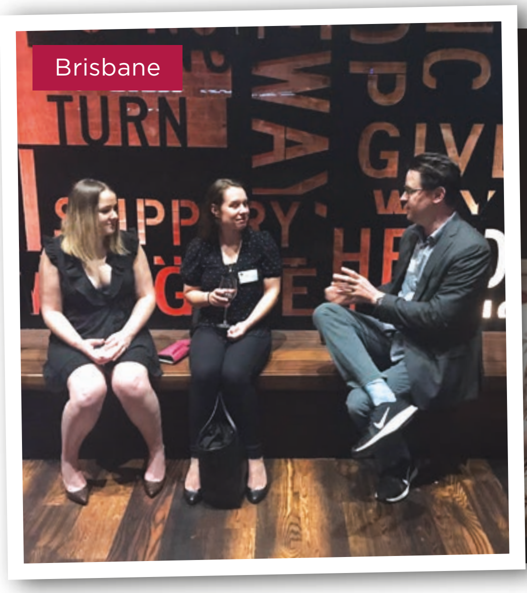
"Exposed to a range of skills that can be used every day to help us all on our own journeys."

"The keynote speakers were a highlight for me. I have left and started using some of the phrases they presented. They were very relevant to current industry issues."

"With the changes going on in our practice and industry, it was very relevant and timely to our needs."

"…felt like more of a sharing experience and recognising that, as an industry, what we do is hard but giving hope that there is a light at the end of the tunnel."

OUT AND ABOUT


Brisbane


Brisbane

WEALTH *and wellness*


Gold Coast

FASEA *exam trivia*

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

The FPA Western Australia Chapter recently hosted the 2019 Women in Wealth networking event series, featuring netball champion Caitlin Bassett. The Sydney Chapter conducted an Australian Financial Complaints Authority breakfast with Shail Singh, the Brisbane Chapter held a wealth and wellness networking event, while the Gold Coast Chapter enjoyed FASEA exam trivia.

SYDNEY *breakfast*

WOMEN *in wealth*

Insight

OPINION CORNER

TOWARDS NEW HORIZONS

Question: With 'New Horizons' as the theme of this year's Congress, what are the three things you are doing to prepare your business for the changes and challenges ahead, and what do you expect to get out of attending the 2019 Congress?

Peter Campbell CFP®

Senior Financial Adviser, Merideon Wealth Strategies

Licensee: Infocus Securities Australia

It's a great question. It feels like we are doing many things to keep abreast of the latest changes, however, the highlights for me are:

1. We are starting to get a bit more strategic around the types of clients we deal with and why. The costs that are facing the profession, with increased compliance burdens and increased education requirements, are unfortunately starting to make financial planning advice inaccessible from a commercial standpoint.
2. We are looking closely at the education requirements and ensuring our planners have a clear plan. We are looking at potential areas of specialisation between planners to ensure we are still able to offer a comprehensive service effectively in the new environment.
3. In speaking to our ongoing clients, we are having open and frank discussions around the costs that the business is facing and our need to consider their fees moving forward. Surprisingly, it's a welcome conversation for clients, as some have expressed concern that we may not be around in the future! It's an interesting perspective when clients would prefer to pay more to support the business.

I'm looking forward to Congress to reconnect with the great planners that I get to have engaging discussions with every year. I'd like to understand how we as a profession plan to handle those clients who are at risk of being left behind.

There will be changes within the profession for planners, which we are all mostly familiar with, but the impact on low to middle-class clients concerns me. Has anyone cracked the code on how to deliver at that level? If you think you're on to something and are attending Congress – track me down and let me buy you a coffee!

Paul Garner CFP®

Founder, Novo Wealth

Licensee: Futuro Financial Services

I'm looking to amalgamate/joint venture with other businesses in my licensee group to amortise costs across more planners. I'm also looking to outsource more non-client work to free up time to spend with clients and prospects.

In addition, I am investigating further opportunities to automate and refine internal processes, to help make my practice more efficient. This includes rolling out and implementing a digital strategy to help attract more new clients to the business.

By attending the 2019 Congress, I am expecting to access new ideas, systems, processes and inspiration to assist me with moving onto the next phase of professionalism and advancement within the financial planning profession.

I will also seek out ways that I can contribute to the advancement of our profession.

Question: With 'New Horizons' as the theme of this year's Congress, what are the three things you are doing to prepare your business for the changes and challenges ahead, and what do you expect to get out of attending the 2019 Congress?

Todd Clifford AFP®

General Manager, Viridian Select
Licensee: Viridian Advisory

As the industry adapts to the new world, there are three things that we're doing to address the changes and challenges:

1. **Taking advantage of technology:** We're looking at how we use digital technology to increase the accessibility of advice for clients and improve the efficiency of the production of advice. I believe technology also has a role to play in making the delivery of advice safer through supervision and monitoring, as opposed to auditing. Data also plays a critical role in running our business more efficiently and providing reporting that allows us to track and progress key activities and metrics.
2. **Being fiduciary led:** We're focusing on fiduciary led engagement, which enables us to take clients on a journey by applying our professional judgement and skill. Our solutions need to enable appropriate advice outcomes.
3. **Partnering:** As the industry changes and institutions that have subsidised advice for a long time move out, those of us who remain each have a part to play to achieve a win-win for clients. Our focus is on partnering with like-minded firms that are culture-led and believe in providing quality advice to clients.

I'm looking forward to meeting and hearing from other like-minded planners at the 2019 Congress and seeing how together, we can make a change to our profession for the better.

Genene Wilson AFP®

Founder and Principal Adviser, Finesse Financial Advisers
Licensee: FYG Planners

The top three priorities for my practice are: growth, pricing, and process.

As I'm growing my business and team, I am interested to hear from the speakers and my colleagues at Congress, while also contributing thought leadership myself, about the value and language of advice.

It's crucial to the success of the profession that we create a dialogue that rebuilds trust with prospects and clients, enticing more Australians to seek advice. I want to know more about how to embed culture, ethics and my desired values into the practice, and how to promote and reward positive behaviours, both for the benefit of clients and to improve business outcomes.

When it comes to pricing our services, what do we need to do differently in order to deliver quality, compliant advice that is both profitable and sustainable for the business? Is it as simple as putting the price up, demonstrating more value, creating better quality assets, or being laser-focused on attracting the ideal client?

At Congress, I'd be interested to hear what the experts say and discover what are other practices are doing.

As I move towards a lifestyle-centred business, I also want to avoid the pitfalls of a start-up, by minimising wasted time, missed opportunities, and the struggle and grind that can go on for years.

So, I'm building processes that are more future-focused and purpose-driven, that support the creation of value for clients and the practice, while helping me to become 'time rich', so I don't burn out.

I expect to hear from the experts at Congress about how to nurture the mind and body, so that I can preserve my energy and direct my time towards the vital aspects of running my practice.

Question: With 'New Horizons' as the theme of this year's Congress, what are the three things you are doing to prepare your business for the changes and challenges ahead, and what do you expect to get out of attending the 2019 Congress?

Michael Abrahamsson CFP®

Director and Financial Planner, Flinders Wealth

Licensee: Flinders Wealth

As any business owner will testify, it takes time – and a certain maturity – to identify the 'perfect' client.

At Flinders Wealth, we have been able to create more value for our clients through a streamlined focus to connect with people we know we can help. In addition to increasing our value proposition, we have found it to drive efficiency in the business. We are prepared to say 'no' and refer clients outside our scope to other financial planners.

Understanding the 'perfect' client better allows a professional advice practice to review and improve its technology stack, while widening its peripheral vision in the tireless pursuit of new and enhanced solutions. It enables an opportunity to upgrade advice documents and build out capabilities around cash-flow, budgeting and portfolio analysis.

We have been able to drill down and further invest in training, education and professional development; balancing learning activities to advance soft, technical, compliance and business skills.

The Flinders Wealth team is excited to attend the 2019 FPA Professionals Congress in Melbourne. We are looking forward to engaging with thought-provoking speakers and learning new ideas to implement in our practice. Importantly, it provides us with a great opportunity to keep an open dialogue with colleagues, build new networks and share our experiences with other planners.

Running a professional advice practice comes with many challenges, but we find Congress, and the support network it attracts, to be especially enjoyable and lucrative.

Corey Wastle CFP®

Founder and Financial Coach, Verse Wealth

Licensee: Synchron

At Verse, we're really focused on what we can control.

The broader changes across the industry have had little impact on where our team's time and energy are directed. We're focused on building a world-class client experience and helping clients live their best life. We believe that our future success and survival will be so closely correlated to the quality of the client experience, that we're obsessive over it.

As part of working towards building a world-class client experience, we are:

1. Increasing our investment in technology to digitise more elements of the client experience, in particular, through their smartphone.
2. Leveraging technology automation and integration to make the delivery of the advice and experience more efficient and scalable.
3. Continually improving the quality of our advice and coaching, so we can add more value to the lives of clients.
4. Focusing on our highest margin services and clients, so we can create the resources to invest further in the client experience.

To facilitate the above, we run a 90-day framework called OKR, which stands for Objectives and Key Results. It's a company-wide approach to goal setting, prioritising and decision-making, made famous by Google.

This helps us become far more strategic about the direction of the business and evolution of the client experience. The process decentralises innovation and means that you can get your whole team working on combating the changes and challenges you may face in the future.

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.

GUEST CONTRIBUTOR

THE GLASS HALF FULL

Vincent Holland explains why certain firms will thrive, and others will fail, as the profession heads into a new chapter.

Vincent Holland

Do you lie awake at night worrying about your business? Are you concerned about what the future will look like in a post Royal Commission world?

With a tidal wave of change reshaping the financial services industry, the demands on planners have never been greater.

But despite all the gloom, there is a big opportunity for a new breed of firms to thrive in this changing world. Will your firm be one of them?

DOOMED FOR FAILURE

I consult with firms across the country – both in regional areas and in capital cities – and the sentiment across the industry is overwhelmingly negative.

What do planners say are their biggest areas of concern? The Royal Commission, and the relentless media coverage it received, hasn't exactly helped.

But it's the change to education standards that is perhaps causing the most grief. At best, some existing planners will only be required to complete a bridging course, but others will be required to complete an entire FASEA approved degree. And of course, all existing planners will need to pass the FASEA Financial Adviser examination before 1 January 2022.

The result of this disruptive change is not just theoretical. It is very real. According to the FPA's own research, up to 6,000 planners could leave the industry, an exodus of almost a third of the entire profession. Already, there is evidence that planner numbers are falling.

And it would be foolish to think that the exodus will only be confined to 'veteran' planners who might otherwise be looking to retire anyway. Indeed, many 'younger' planners might also be reconsidering their future in the profession.

The imminent ban on grandfathered commissions is also a matter causing significant headaches for some firms. They will now be challenged to completely rethink their service model, or possibly face extinction.

THE CASE FOR OPTIMISM

However, it is my view that firms that are prepared to see out the current turbulence will profit greatly in the future. It will not necessarily be easy, but firms with a long-term outlook and the willingness to adapt and embrace change now, will be better placed than ever.

Allow me to share just a few reasons why.

First, the demand for high quality financial advice will not disappear. If anything, it is likely to increase. Yet the supply of planners available to service this demand is falling. In other words, it is a market ripe for opportunity.

Our superannuation savings pool, worth an estimated $2.8 trillion (at the end of the March 2019 quarter), is now the fourth highest in the world. According to the Australian Bureau of Statistics, the total wealth of the average Australian has surged past $1 million.

The point is that Australia is a wealthy country, with an affluent middle class. And as their financial affairs become more complicated, so too will they have need for financial advice.

Individuals will rely on the help of a trusted financial planner more, not less. The stakes are just too great to leave it to chance.

There is already a seismic shift taking place in which the exodus of larger institutions is leaving a vacuum. Institutional conflicts are rapidly being eroded – restoring trust and confidence in the sector.

High quality financial planning boutiques, untainted by any conflicts, and a greater focus on strategy, not product, will help to fill this void.

THE KEY TO SUCCESS

But what will it take to succeed in this brave new world?

Steve Jobs once said that the best place to start is with the client experience and to work backwards from there. Ask yourself what your clients want from their financial planner.

Market research shows that generating superior investment returns is not the area that clients value most. Sure, sound portfolio management is a given. But clients are increasingly placing importance on their bigger picture goals and objectives, and whether they are on track to achieving them.

It is somewhat ironic that in an age of information, with endless data at their fingertips, clients value their human interactions the most. Am I on track? Will I be okay? Can I afford to fund a private education for my children or grandchildren?

These are questions that cut to the heart of the planner/client relationship. And no algorithm is going to adequately address these challenges.

ALL SYSTEMS GO

But it's easier said than done. With a growing compliance burden, soaring PI premiums and tighter regulatory scrutiny, the challenge will indeed be great. Simply passing these costs onto clients will not be sustainable.

Unfortunately, many firms are so buried in compliance and administration that they are unable to adequately focus on the areas that matter most to their clients.

With a typical holistic SOA comprising up to 50 pages or more, it's easy to see how much time gets lost on tasks that don't seem to add much value.

On the other hand, firms with great software, systems and processes, will successfully automate these non-value adding tasks, freeing up time to spend more of it in front of their clients.

Ask a practice valuer what increases a firm's valuation the most. They will tell you that a firm with great systems, a clearly segmented service offering, and the means to deliver it efficiently and cost-effectively will attract a premium valuation.

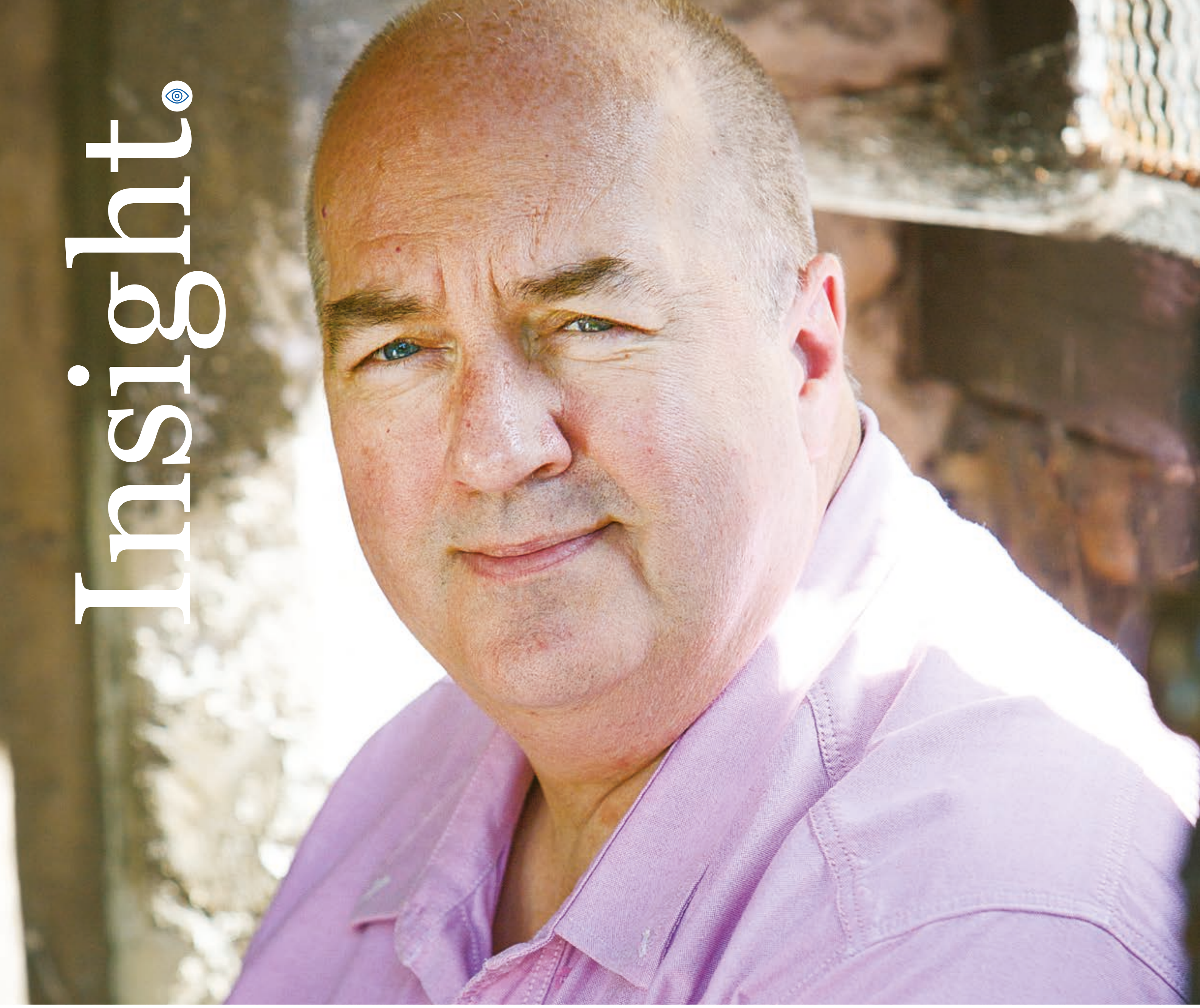
All things being equal, their profit will be greater, their client retention better and their referral rate far higher. Among the firms we work with, this is certainly consistent with the results the higher performing firms are able to achieve.

WHERE TO FROM HERE?

There are certainly challenges that lie ahead. It will not be for the faint-hearted. Now is not the time to rest on your laurels. But firms that are prepared to implement the necessary technological and process change now (and hit the study books again), will be well prepared to reap the rewards in the future.

Vincent Holland is a Principal of Forty-Seven and a co-founder of Plutosoft, a comprehensive financial planning software and practice management program for financial planners. Forty-Seven is part of the FPA Professional Practice program, which recognises the highest calibre financial planning practices within the profession. Vincent can be contacted at: vincent.holland@plutosoft.com.au

PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION of AUSTRALIA



In the SAME BOAT

The answers and solutions to problems are all around us, says **Phil Billingham CFP®**. All it takes is for you to open up your mind to endless possibilities. **Jayson Forrest** reports.

If there is one message Phil Billingham CFP® would like to impart with practitioners from his 40 years working in the U.K. financial services industry, is that when it comes to change, you're not alone.

"It's easy to be dismissive about the regulation and change here in Australia, compared to the rest of the world. But guess what? You're not alone. We're all facing the same challenges, and we're all in the same boat."

Instead of reinventing the wheel, Phil believes planners need to open up their minds and talk to each other, regardless of where they may be located, about the changes and challenges facing the profession. "The answers and solutions are out there. All we have to do is learn from each other."

Phil will be appearing on a panel discussion of global planning experts at this year's FPA Professionals Congress, which includes Mitch Anthony (USA), Janet Hugo CFP® (South Africa) and Andrew Talbot CFP® (Singapore). They will share their insights about the challenges from their part of the world, and how they are navigating change to develop deeper and more sustainable business models.

"Despite the regulatory and cultural differences around the world, the one common denominator are our clients," Phil says. "Clients want to protect their families, they want to build their businesses, they want to grow their wealth and enjoy a comfortable retirement. The needs of our clients never change. So, talking to planners from other countries allows you to discuss similar problems, share your experiences and learn about other solutions to tackle problems."

RETAIL DISTRIBUTION REVIEW

When it comes to adapting to change, Phil reckons he knows a thing or two, having steered his practice, Perceptive Planning, through the rigours of the Retail Distribution Review (RDR) – a U.K. examination into the sale of investment products to retail customers by financial planners.

Occurring at the same time as Australia's Future of Financial Advice (FoFA) reforms, the RDR was launched by the Financial Services Authority (FSA) in 2006, with the new rules coming into force on 1 January 2013.

These rules included: new training, accreditation and CPD requirements for planners; a new distinction between 'restricted' and 'independent' financial advice; a ban on receiving commissions from product providers; and a requirement to disclose planner charges to consumers up-front.

"The aim of the RDR was to make the retail investment market in the UK work better for consumers, by raising the minimum level of planner qualifications, improving the transparency of charges and services, and removing commission payments from product providers," Phil says.

"These changes have been a massive undertaking for the U.K. financial planning industry, but six years on, they have also helped make us a stronger and more trusted profession."

It's a view shared by University of Northampton lecturer in financial services, Gillian Cardy. Speaking at a recent Netwealth U.K. Study Tour, Gillian revealed that retail investment revenue in the U.K. increased by approximately 25 per cent in the three years following the new RDR rules in 2013, with the number of advice firms also increasing by 8 per cent within the same period.

However, the RDR didn't come without its challenges. According to Phil, if there was one mistake from the review that other countries should avoid making, it is introducing higher planner qualification requirements at the same time as introducing changes to existing advice business models.

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People will readily pay fees to get good advice. In fact, post-RDR, planners in the U.K. have on average doubled their profitability through client retention models, not client attraction models.

– Phil Billingham CFP®

"This created the perfect storm, resulting in significantly higher planner attrition in the U.K. than we should have had," he says. In fact, Phil believes the convergence of these two changes accounted for an additional reduction in adviser numbers, bringing the total attrition since 1988 to as much as 75 per cent of the U.K. adviser population.

It's a staggering number but he qualifies this by adding that U.K. advice models dependent on selling products have suffered the most from the RDR changes.

"It still makes no sense to me why it should cost 10 per cent upfront to sell somebody a product through a complicated sales process, when in theory, it could just as easily be bought at the supermarket checkout for five basis points," Phil says.

"And whilst it's true that a supermarket in the U.K. could in theory sell you term insurance or a savings plan, what it can't do is understand the effect that may have on a person's individual situation. Only planners with a close relationship with their clients have the expertise to understand the unique personal circumstances of their clients. That's our value proposition."

However, seven years on, looking back at the RDR and all the changes it brought to the U.K. market, Phil says the reforms have actually been liberating for planners, by freeing them from a system that was heavily reliant on selling product.

"Our advice business models had to change to be more focused on solving our clients' real problems, rather than selling them a product, and that's been a wonderful step for planners to take."

LESSONS TO BE LEARNT

Phil is acutely mindful of the current changes facing the Australian planning profession, including higher education and professional requirements. But he believes there are similarities between what the U.K. industry has recently been through and what the Australian market is currently working its way through.

He is confident there are many lessons Aussie planners can learn from their British colleagues to help them better adapt to the challenges and change ahead for the profession. And top of the list is to ensure the "client always comes first".

"During the time of the RDR, there were dire predictions that planners would become tied agents of the product manufacturers because it would be most cost-effective for them, but this turned out not to be the case," Phil says.

Continued overleaf

"At the time, about 90 per cent of planners were already independent and non-aligned. Clients liked the fact their planner was independent and were happy to pay fees for unbiased advice that was in their best interest. They did not want to pay fees to be sold a product."

Phil says at the core of ensuring that the client comes first, is the need to "really get to know your client".

"Clients want to work with somebody who understands them and their life stages. For them, they've never sold a business before, they've never retired before or worked in three countries before. But they want to work with somebody who understands these things, and who has the expertise and experience to help them with their life stages," he says.

"The more planners we have who can offer that advice expertise, the better. Clients are after advice and guidance, which means products really don't matter; instead, they're a commodity that can be sourced from anywhere."

Phil adds that at the heart of knowing your client and focusing on their needs is being able to articulate your client value proposition, which means creating compelling propositions that clients will pay for.

"Be confident in the value you provide to your clients by charging fees accordingly," he says. "People will readily pay fees to get good advice. Post-RDR, planners in the U.K. have on average doubled their profitability through client retention models, not client attraction models. Today's advice model is centred on high service levels for clients, which clients are generally happy to pay for."

It's easy to be dismissive about the regulation and change here in Australia, compared to the rest of the world. But guess what? You're not alone. We're all facing the same challenges, and we're all in the same boat.

– Phil Billingham CFP®

IT'S ABOUT THE INDIVIDUAL

When it comes to rebuilding trust that has eroded over recent years due to industry misconduct, Phil believes what really matters is the trust of a planner's client base.

"There is a lot of evidence that shows that clients don't trust financial services but they do trust their financial planner. Trust is all about the brand of the individual.

"So, instead of worrying about rebuilding trust with the general public, let's first build and retain trust where it matters the most – at an individual client level. From there, we can build on that. Having a good reputation with your clients has a ripple effect, which spreads out to the wider community."

Phil also believes a key to rebuilding trust is for professional industry bodies to be more proactive in retaking the moral and ethical high ground by clearly differentiating themselves and what they stand for from product providers.

"Financial planner and adviser professional bodies need to have a clear 'arm's length' relationship with product providers. As part of their duty of care, professional bodies need to stand by their members and consumers, which is fundamental to being a profession. And the FPA is a great example of that happening in Australia."

In fact, since the RDR, Phil says there are more positives today in the U.K.

Your speaker

Phil Billingham CFP® has been a planner, author, trainer and consultant since 1982. He is passionate about bringing his considerable international experience to support financial planners around the world to cope with regulatory change.

His past roles have included: working in the U.S. with the National Association of Financial Advisers and Consumer Federation of America; former Director and Vice-Chairman of the Society of Financial Advisers in the U.K.; former Director of the Institute of Financial Planning (2007-2012) and Chair of the Ethics and Practice Standards Committee (U.K.); and member of the Financial Planning Standards Board's (FPSB) Regulatory Advisory Panel (2009-2014).

Phil has worked with planners and regulators around the world, including India, Canada, U.S., South Africa and Australia.

He remains an active planner and Director at Perceptive Planning, an independent Chartered Financial Planning firm he owns and runs with his wife. The U.K. business was nominated 'Top 100' status in 2014, 2015, 2016 and 2017 by Citywire.

media about the need for consumers to seek independent advice, rather than buying a product directly that may be unsuitable for their needs. He admits that as stressful as it was to go through the RDR, the reform changes have injected greater confidence and trust in the profession, which he believes will also happen here.

"The changes ahead may seem onerous, but the profession will emerge much stronger and more defined in the years ahead. You can't avoid change. It's happening. So, embrace it, learn from it and thrive."

CHANGE IS A CONSTANT

When chatting to Phil, it doesn't take you long to realise there's one thing he's not short on, and that's having an opinion. So, when it comes to looking into his crystal ball to see how the profession will change and evolve over the next 10 years, he sees plenty of opportunities ahead.

Side-stepping the obvious, like the integration of technology and aligned services, such as accounting and law, into financial planning models, Phil identifies a rapidly emerging trend in the U.K., which he believes will eventually play out in Australia – new product manufacture and distribution channels.

"Non-traditional financial services players, like supermarkets, will increasingly move into financial services product manufacture and distribution. Why? Because consumers are increasingly looking to go elsewhere, other than banks, for their financial services products."

As a part of this move away from traditional product manufacturers, Phil believes products will become simpler. However, he cautions for that to happen, the Government will need to provide greater certainty by stop tinkering with rules and regulation, particularly in relation to areas like superannuation.

As for the future, well, this CFP® practitioner remains very upbeat, particularly in respect of the current cohort of planners handing over the baton to the next generation of professionals. "We will see more generational succession within the profession, and probably from father to daughter. In the U.K., we are seeing many more young women joining the profession, which is fantastic to see," Phil says.

"In fact, I'm very optimistic about the next 10 years. Right now is a great time to be a financial planner, particularly if we take the time to learn from each other. And the next 10 years could be even better!"

Phil Billingham CFP® will be part of a panel discussion of global planning experts at the 2019 FPA Professionals Congress in Melbourne (27-29 November). For more information on the Congress program or to register your attendance, go to: fpacongress.com.au

NEW HORIZONS: WORKSHOP PROGRAM

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

EVOLVE

Technical capability and critical thinking in financial planning specialty areas.

FASEA exam insights and 'Return to Learn': Tips to help you succeed	Hear from a panel of planners who will share their study tips to help you feel more confident and prepared going into the FASEA exam and studying the Ethics Bridging Course.
Which code?	How will the FASEA Code of Ethics be interpreted and how does it compare to existing codes, such as those of the FPA and TPB. This session will look at each of these codes, how they differ, and how to meet the requirements of all three codes.
Journey to an improved advice business	How do we improve the client experience, reduce the cost of advice, and ensure compliance management and monitoring is real time and data driven? This session will explore lifting efficiency and examine a new approach to data management to drive business automation.
Priceless advice: The meaning of value	During this workshop you will experience how the language of advice can be reshaped, adapted and presented to resonate with your clients.
Keeping pace: The latest intel within SMSFs	Gain insights across a range of SMSF topics that will ensure you are able to apply the latest thinking into strategies for your SMSF clients.
Valuable lessons from vulnerable clients	This session covers what practitioners need to know when providing financial advice to vulnerable people, like the elderly or mentally challenged clients, to help support them make better financial decisions.

ENGAGE

Engaging and developing your clients and staff.

How culture leads performance	Organisational culture is critical to performance and leaders play a vital role in creating cultures where people want to work and perform. Personal alignment is the key to lifting professional performance and achieving work/life balance will help you to optimise your performance in work, life and play.
How to build a support network you can trust	In this session you will learn the core principles required to create and keep teams of people in all areas of your life that uplift you, nurture you and ground you, without being a burden, obligation or drain on them or you.
Creating a values-based firm	John Hale will discuss the impact of ethics across context, culture and creativity. This session will equip planners with the know-how to conduct their own values-based audit of their business culture.
Building relationships that last and flourish	Mitch Anthony explains why money-centred advice is self-limiting and guide you to develop a dialogue path that will guarantee deeper connections and lasting relationships. Learn three powerful Life-Centred Planning dialogues that will demonstrate your true value to clients.
Amplify your Impact	Based on behavioural science, this workshop will give leaders practical strategies to build assets of achievement that help advance people and performance, and accelerate success.
Think outside the box	Ignite your creativity with the skills needed to solve complex business challenges.

GROW

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

Licensing: Choose your own adventure	This session will explore the pros and cons of different licensing options, including recent changes introduced by ASIC to enable planners to determine the right option for them.
FOSOA: The future of SOAs	What will SOAs of the future look like? And how can you build one today? This session will draw on recent technology advancements that make SOAs fit for purpose and deliver a superior advice experience for your clients.
When ASIC comes knocking: How to be prepared	This session will feature a representative from ASIC, a planner and a lawyer, who will draw on case study examples of what you can learn and how you can approach an ASIC audit.
The pricing evolution: What will profitable planning businesses look like	This session will explore what advice businesses of the future will look like, and what planners will need to do differently in order to attract and retain new clients, as well as ensure advice is delivered profitably and sustainability.
How to be a good corporate citizen	Environment, social and governance (ESG) principles have become an increasing focus for many advice businesses. This session will explore how to ensure the right structures and frameworks are in place for your advice business.
In the interests of others	This session will explore the most common complaints received by AFCA, including current trends and some of the lessons we can learn, so that advice delivery may be improved.

INSPIRE

Get motivated and nurture your mind and body.

The power of real confidence	This session examines what confidence really is and how it can take us to a whole other level in terms of our performance and influence.
The neuroscience of stress and decision-making	This session examines how the brain works in relation to peak mental performance, problem solving and decision-making. It will address how to regulate stress and emotions, and discuss the neuroscience of wellness.
Reinvent your business	Learn how to see the future before it gets here. Identify lost or forgotten opportunities within your business. Unlock the imagination and ingenuity you need for innovation, and stop reacting to change and start leading it.
Human durability	Be guided through the 'human durability' model – a powerful process for clarifying vision, planning, problem solving and decision-making. You will gain a systematic approach for preparing yourself to anticipate and manage challenges.
A roadmap for living life	This workshop will show you: how we are not the sum total of what we do or what we've done; how our trials and tribulations can be a gift, if we're prepared to learn from them; and how to live life fully with meaning, authenticity and purpose.
Strive: By embracing change	Andrew May explains that to strive is to make great effort to achieve a goal, to embrace change and step out of your comfort zone. The 'struggle' to strive creates a sense of pride, building new capabilities and creating new opportunities.

FPA FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

2019 PROFESSIONALS CONGRESS

MELBOURNE 27–29 NOV

PROGRAM OVERVIEW

Time	Wednesday 27 November
1:00pm-4:00pm	FPA Professional Practice Masterclass
1:00pm-4:00pm	Paraplanner Masterclass
4:15pm-5:55pm	**Opening Keynote Session**
6:00pm	Welcome reception and Expo opening
Time	**Thursday 28 November**
7:30am	Women in Wealth breakfast / Networking breakfast
9:00am	**Keynote Session**
10:30am	**Workshop 1:** Evolve / Engage / Grow / Inspire
11:30am	Morning tea
12:10pm	**Workshop 2:** Evolve / Engage / Grow / Inspire
1:10pm	Lunch
2:10pm	**Workshop 3:** Evolve / Engage / Grow / Inspire
3:40pm	Afternoon Tea
4:10pm	**Workshop 4:** Evolve / Engage / Grow / Inspire
7:00pm	**Future2 Celebration**
Time	**Friday 29 November**
7:30am	Networking breakfast
9:00am	**Workshop 5:** Evolve / Engage / Grow / Inspire
10:15am	**Workshop 6:** Evolve / Engage / Grow / Inspire
11:15am	Morning tea
12:30pm	**Closing Keynote Session**
2:00pm	Congress close

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

FOR MORE INFORMATION, VISIT **FPACONGRESS.COM.AU**

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

CONTRARIAN INVESTING

THE LONG-TERM APPROACH

Contrarian investing is a disciplined, long-term approach to investing, requiring patience.

"Be fearful when others are greedy, and greedy when others are fearful." It's one of Warren Buffet's most famous quotes and beautifully sums up his approach to investing.

Considered to be the world's most successful investor, Warren attributes his success to a patient, long-term approach to investing. In fact, you could say he is a good example of a contrarian investor.

WHAT IS CONTRARIAN INVESTING?

According to Chris Inifer – Head of Retail Strategy at Allan Gray – contrarian investing is foremost a philosophy and approach to investing, as opposed to an investment style.

"As the name suggests, it's an approach to investing that is contrary to more popular approaches, which enables you to resist trends and not follow the crowd. It ultimately results in very meaningful differences in portfolio holdings and could deliver better returns than the broader market over the long-term," Chris says.

"It's an approach that tends to exhibit deeper value characteristics, but is not necessarily exclusively value in style. The main focus is on valuation and looking to buy companies at prices significantly less than their intrinsic value."

Such investment opportunities often occur when companies are experiencing challenges or problems, and it's these challenges that cause investors to become fearful. This fear can result in investors selling at low prices that are often attractive to long-term contrarian investors.

"As opposed to managers that exhibit a strict value bias, contrarian investors may also find value in companies where their future growth prospects are not being rewarded by the market, or perhaps where companies are not well covered by the market and limited research on them is available," Chris says.

According to Lonsec Investment Solutions, Chief Investment Officer, Lukasz de Pourbaix, a contrarian approach is effectively investing against the market.

"It's a deeper value type of investing, where you're not chasing last year's winner, which means that investors typically have different types of exposure relative to other exposures, like a growth style manager," he says.

THE GOOD AND BAD

So, what are the pros and cons of contrarian investing?

Chris concedes it's an interesting question, believing the pros and cons are often the same.

"For example, a contrarian approach is long-term in nature. That means we need a business owner mentality, not a share trader mentality. We tend to invest in companies as if we are buying the entire business, not just looking to trade a few shares in that business," he says, adding that in reality, the investment is limited to a percentage of the company.

Approaching an investment with a business owner mindset, gives the investor a deeper understanding of how a business operates, not just a view on the next short-term share price movement, which Chris sees as a definite advantage.

However, he adds that while this longer term, 'business owner-oriented approach' can yield very good results, investors can become impatient during long periods of underperformance.

"This disconnect can cause discomfort with some investors, which may lead them to buy or sell at the wrong times, which may be detrimental to their returns," Chris says.

But the nature of contrarian investing means investors often own companies that are unpopular and, at times, receive less favourable coverage in the media. However, for many investors, it's difficult to own businesses of this nature, particularly when their share prices are often under pressure.

As such, Chris says a contrarian approach is counter-intuitive from a behavioural perspective, as it requires a strong and disciplined approach to investing.

"So, in a perverse way, contrarian managers do what many investors know they should do doing, but find it too difficult to do," he says. "Adopting a contrarian approach will invariably lead to a very different looking portfolio, but one that's focused on the preservation of capital. Investing in companies with a margin of safety in the share price is the best way to minimise risk. It's the price that you pay that matters."

It's a view supported by Lukasz: "Contrarian investing can provide diversification to a portfolio by giving investors a different type of exposure to the market, particularly in a momentum market. However, the main disadvantage of going down the contrarian investing path is that it can take an extended period of time for investments to come to fruition.

"This means you might go through a number of years where your investments look quite ugly against the market. So, it's definitely a long-term strategy, requiring patience."

STYLE BIASES

Some investment managers believe it is best to avoid style biases (like contrarian, growth and value), arguing that different investment styles tend to outperform at different times.

And while it's true that certain managers do perform better under different market scenarios, Chris believes that although contrarian

Chris Inifer

Lukasz de Pourbaix

It's difficult being different. Planners need to philosophically think that this is a sound and logical way of investing. This will assist them and their clients to stay the course through difficult patches. – Chris Inifer

investing is more closely linked to a value investing style, it is able to outperform in many market environments.

"Managers that exhibit a growth bias invariably prefer companies with superior earnings growth, whereas traditional value investors often invest in perceived stable businesses with strong earnings and dividends and, most commonly, a P/E ratio of less than the market," he says.

"Most managers stand for something. So, regardless of style bias or output, I do think that managers and financial planners should give little credence to the broad market as their starting point for portfolio construction. Companies should be selected based on upside and opportunity, as opposed to being solely a significant part of the market."

Lukasz agrees, adding that if multiple managers with varying styles are going to be used in the portfolio construction process, then this diversification can provide a smoother ride for clients over market cycles. But he cautions that each manager chosen should be capable of delivering meaningful outcomes to the investor.

It's a view shared by Chris: "If you are going to use more than one equites manager, then you should ensure they are both highly capable of beating the market meaningfully and are considerably different from one another, so they are able to smooth the ride for investors through cycles."

NEGATIVE CORRELATION

In terms of asset class diversification, Chris says the established theory that investors should look at combining negatively correlated assets – such as, bonds and equities – is sound. However he adds that the problem with this is that valuation is often ignored in the process.

"If you consider the idea that interest rates are at record lows, then buying long-dated fixed income, regardless of correlation with equities, seems like a bad idea to me. Fundamentals and valuation should be at the heart of any asset purchase, as should be the time use of money," he says.

"Exposure to multiple asset classes will keep clients invested in more challenging times, as diversification of low or negatively correlated investments does help keep investors 'on the bus'. However, their returns will likely (in an absolute sense) be lower in the long run than they would have perhaps received if they had invested with a strong equities manager."

A DIFFERENT APPROACH

Ultimately, a contrarian approach to investing is a very different approach

Continued overleaf

for investors to adopt. So, does that mean it's an approach to investing that planners should be considering for their client portfolios?

Chris believes so: "A contrarian approach allows access to a part of the market that represents great opportunity from a valuation perspective. This then has to equate to better-than-average results over the long-term, as well as diversification. Otherwise, what's the point? Owning companies that are experiencing problems is difficult to do and results in a portfolio that is very different to most."

He adds that the main consideration for a planner is to understand that this is a long-term approach to investing that does require discipline and some "intestinal fortitude" from the investor.

"It's difficult being different," he says. "Planners need to philosophically think that this is a sound and logical way of investing. This will assist them and their clients to stay the course through difficult patches."

Lukasz agrees: "Whether conscious or unconscious, quite often you will find portfolios that are skewed to a part of the market that has done really well in recent times. We've seen that recently in the momentum-driven market, where growth has done well. But market environments do change and things that may have worked well previously, may not work as well in the future. That's why planners need to ensure their clients' portfolios are well-diversified," he says.

"Contrarian investing does add an element of diversification and will bring something different to investment portfolios in the types of exposures clients are getting. But it is a long-term approach."

UNDERSTAND THE MARKET ENVIRONMENT

Given this disciplined approach to investing, how do planners apply contrarian investing consistently when investing for the long-term?

Lukasz believes there are two approaches planners can take.

Firstly, build a well-diversified portfolio, with different types of strategies and styles. This means that over the long-term, through different market cycles, investors have different parts of the portfolio working for them.

"That's probably the most common approach, because you're not trying to time the market or work out next year's win," he says.

Secondly, he suggests that planners can also try and better understand the market environment. For example, Lukasz says in a bull market, contrarian investing doesn't tend to do well, compared to growth or passive strategies. Instead, contrarian investing tends to perform better in an early stage recovery following a "dip and pull back" in the market.

"Importantly, with contrarian investing, investors need to understand that there will be periods where their investments will underperform the market. So, it's a different type of strategy but it's a complementary approach to high momentum or growth-orientated strategies."

INVESTOR OPPORTUNITIES

When it comes to Allan Gray's largest positions, Chris says it is energy-related companies, such as Woodside and Origin Energy, as well as some exposure to other cyclically-challenged sectors, that make up these holdings.

"It's fair to say that we often find value in sectors that have been or are going through a tough period, which is not to say we buy them all," he says.

"As it applies to commodity companies, this often occurs when the dynamics of supply and demand lead to a change in the price of commodities, such that profitability declines and capital investment dries up."

He points to Newcrest and Alumina as examples, which have also been long-term holdings of the business.

"Metcash has also been part of the portfolio for a long time, due to increased competition from abroad and price wars among food retailers. And in more recent times, we have built positions in Telstra and AMP," he says.

"This sort of approach will result in a very different portfolio as compared to the average Australian equities fund, but it's this difference that means contrarian investing can make a meaningful difference to clients' returns over the long-term."

LEADERSHIP

THREE SKILLS FOR BETTER ENGAGEMENT

As leaders, there are three critical skills to help shift our workplace teams from feeling disconnected to connected, writes **Michelle Sales**.

A study by Gallup revealed that companies with engaged workforces have higher earnings per share and even recovered at a faster rate from market downturns. The study also revealed that people who feel connected to their leaders are more likely to remain with their organisations and act in ways that support the overall vision.

Yet studies show there is a connection deficit in most workplaces today.

In late 2018, Ernst & Young instigated a 'Belonging Barometer'. This study of more than 1,000 employees confirmed evidence that exclusion (the inverse of belonging and connecting) is a growing issue, with more than 40 per cent of those surveyed feeling physically and emotionally isolated in the workplace.

Highly disconnected and disengaged employees don't feel part of anything, have low commitment, and are usually only at work to do the bare minimum and collect their pay.

When people lack emotional connection to their work, they usually take more sick days and there are performance and behavioural issues, with extreme cases leading to purposely causing harm and disruption to the entire business.

On the flipside, engaged employees feel a real sense of connection to their work, their leader and their peers. They want to work with others, which means collaboration happens and performance thrives.

So, as leaders, how do we behave in a way that shifts our teams from feeling disconnected to connected?

Here are three critical leadership skills.

1 SHOW HUMILITY

The governor of the Bank of England, Mark Carney, claimed in 2018 that humility is one of four essential leadership traits in this era of disruption. Leaders who exhibit humility listen to their people and invite them to share their ideas and to challenge the status quo in order to improve and grow.

Part of the process of genuinely connecting with your people and being humble is letting go of your own excessive ego, insecurities and concerns about status.

Humility in leadership allows you to have an accurate perception of your strengths and weaknesses, and to understand the needs of others. It allows you to recognise the contribution of others, which in turn means people feel valued.

2 BE CURIOUS

Being curious and interested in your people is critical to building strong connections. As a leader, how else do you understand what drives and motivates your people if you are not curious, and if you don't invest the time in really getting to know them?

Being curious about your people as individuals allows you to coach and motivate them using strategies and tools that are right for them, rather than using a one-size-fits-all approach.

This also means that great leaders are much more interested in listening to others than listening to themselves. They are interested in learning and leveraging the talent and different strengths in the team. You simply can't do this if you aren't curious about what your people bring.

3 PRACTICE COMPASSION

Christina Boedker, of the Australian School of Business, researched

Continued overleaf

the link between leadership and organisational performance, collecting data from more than 5,600 people in 77 organisations.

She concluded that out of all the various elements in a business, the ability of a leader to be compassionate, 'to understand people's motivators, hopes and difficulties, and to create the right support mechanism to allow people to be as good as they can be', had the greatest correlation with profitability and productivity.

Employees feel greater trust with leaders who are compassionate.

Harvard Business School's Amy Cuddy and her research partner have shown that leaders who project warmth before establishing their competence, are more effective than those who lead with toughness and skill. This is due to the trust that is created with warmth, kindness and compassion.

When trust is built, strong connections are created. This is when you move beyond engagement and start to achieve real commitment and results from your people.

Experiment with building your humility, curiosity and compassion as a leader, and see the impact on your results.

Humility in leadership allows you to have an accurate perception of your strengths and weaknesses and to understand the needs of others. It allows you to recognise the contribution of others, which in turn means people feel valued.

Michelle Sales will be delivering a workshop session titled, 'The power of real confidence', at the FPA Professionals Congress on Thursday 28 November. This session examines what confidence really is and how it can take us to a whole other level in terms of our performance and influence. For more information, go to fpacongress.com.au

Michelle Sales is a speaker, trainer, coach and author who helps senior leaders and their teams to build confidence and maximise their leadership and performance by consciously connecting with others. She is the author of the new whitepaper – The Connection Deficit: Why leaders must bring both head and heart to work to build trust, lift engagement and accelerate organisational results.

Life.

SUPPORTING FUTURE2

COLLECTIVE RESPONSIBILITY

Geoff Rogers talks to Money & Life about MLC's support of the 2019 Future2 Challenges and the Future2 Celebration at this year's Congress.

Geoff Rogers

HOW IMPORTANT IS IT FOR THE PROFESSION TO BE INVOLVED IN COMMUNITY INITIATIVES, LIKE FUTURE2?

It's very important, and for three reasons.

Firstly, it's about helping disadvantaged Australians who are doing it tough. Since the Future2 Foundation was established in 2007, there have been many individuals and nor-for-profit organisations who have benefitted from receiving Future2 grants. It has been a real credit to all those who have been involved in Future2 and who have generously supported it.

Secondly, community initiatives bring the profession and industry together. Participants in Future2 activities, like the Wheel Classic and Hiking Challenge, also involve their own networks and communities to help raise money. I'm very proud to see a whole community that is united behind a worthwhile cause.

And thirdly, it's important for the profession to have a social conscience, where it freely gives back its time and expertise to the wider community from which it draws its livelihood.

WHY DID MLC DECIDE TO BE THE GOLD SPONSOR FOR THE 2019 FUTURE2 CHALLENGES (AND THE FUTURE2 CELEBRATION) FOR A SECOND CONSECUTIVE YEAR?

It's in part due to our sense of community. Last year, MLC's CEO, Geoff Lloyd, made the call that we should get involved with the Future2 Challenges, as it provided us with an opportunity to help the FPA and support these Future2 initiatives.

But our involvement was also holistically-based. As an organisation, we are currently preparing our business to separate from NAB, and we have categorically said that our business is going to stand for advice. So, if we are going to say that, then we need to do it holistically. And an important aspect of standing for advice and supporting planners, is also being involved in community activities.

That's one of the reasons why MLC is keen to be involved again with the Future2 Challenges and the Future2 Celebration at Congress. Not only are we demonstrating our commitment to the profession, but we're also demonstrating our commitment to the wider community.

WILL MLC STAFF BE INVOLVED IN THE TWO CHALLENGES?

This year, we're aiming to have more riders and hikers involved in these Challenges, which is exciting to be part of.

Last year was my first Future2 Wheel Classic and although it was truly challenging, it was also an incredibly rewarding experience.

So, I've signed up again to take on this year's six-day ride. Both Future2 Challenges are demanding, that's why I'm well into my training program to prepare myself for the 819km that I'll be cycling.

For the Wheel Classic, we currently have three MLC staff confirmed for the full six-day ride, with possibly another two doing the shorter ride. And with the Hiking Challenge, we have three team members confirmed, but I'm expecting more.

MLC is getting behind this year's events, with the MLC marketing team already generating excitement around the Future2 Challenges. We're advertising these challenges on our internal networks, as well as using social media, like Facebook and Twitter. We'll also be promoting the events in different head office locations, to help create interest in the important work the Future2 Foundation does.

We will also be reaching out to our own planner networks. We will encourage them to share our excitement about the Future2 Challenges with their client networks and their wider communities that they are involved in.

HOW DOES MLC'S SUPPORT OF THESE TWO FUTURE2 CHALLENGES ALIGN WITH ITS APPROACH TO SOCIAL GIVING AND SOCIAL RESPONSIBILITY WITHIN THE WIDER COMMUNITY?

As you would expect from any large organisation, paying attention to the community and community expectations, is something you build into your culture. We're still part of NAB, so we have the NAB Foundation, which does a lot of community work.

MLC CEO, Geoff Lloyd, is active in a number of charities that as an organisation, we also get involved with. This includes the Juvenile Diabetes Research Foundation.

One of the things that I think is so important about Future2 is that it's an initiative of the FPA that has been embraced by all levels of the profession and wider industry. Planners can be part of it, staff can be part of it, product providers can be part of it. It has truly become a community initiative, and that's what makes Future2 so special. It's also one of the reasons why MLC was keen to be involved in the Future2 Challenges for a second consecutive year as the gold sponsor.

And during these challenging times for the profession, as we deal with FASEA and the fallout from the Royal Commission, it's especially important that all of us in the profession and industry are active within the wider community, showcasing the good work planners do with their clients every day. And what better way of demonstrating than by raising funds for worthy causes that help disadvantaged young Australians.

HOW CAN THE WIDER PROFESSION EMBRACE SOCIAL RESPONSIBILITY?

If you look at what the financial planning profession does, it's all about helping people with their finances to realise their dreams and lifestyle aspirations. So, the profession already has the capacity and capability to give back to the wider community as part of its social responsibility.

Future2 has been running for 12 years, so it has a solid track record of giving back to the community. During that time, it has committed over $1 million in grants to grassroots community programs, ranging from skills training, to work experience, mentoring, education, financial literacy and more.

In 2018-19, Future2 was able to help 19 community not-for-profit organisations with grants totalling $181,000. That's truly inspiring.

But social responsibility doesn't mean you have to strap on your helmet and join us on the Future2 Wheel Classic. It can include raising awareness within your own networks about the work Future2 does in the community; it can be doing pro bono; it can be supporting the participants in this year's Future2 Challenges; it can be volunteering your time and expertise to community groups. There's so many different ways we can embrace social responsibility.

Top: Future2 Events Co-ordinator, David Eck 'high fives' the riders. Bottom: Geoff Rogers is backing up for his second Future2 Wheel Classic.

It's been wonderful to see the profession and industry unite in helping the broader community as part of its collective social responsibility.

Geoff Rogers is General Manager, MLC Wealth Distribution. MLC is the Gold Sponsor of the 2019 Future2 Challenges and the Future2 Celebration at this year's FPA Professionals Congress.

Rise to the Challenge

In the lead up to the 2019 FPA Professionals Congress (27-29 November), the Future2 Foundation will be running two fundraising challenges.

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.

And for those preferring to keep their feet firmly on the ground, Future2 has organised a four-day hiking challenge. 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.

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

LIFE LESSONS AT GIRLS ACADEMY

Simon Chesson CFP® has enjoyed a 15-year involvement with the **Girls Academy,** which helps Aboriginal and Torres Strait Islander girls attend and complete high school.

The Girls Academy, based in West Perth, is a provider of high school-based engagement programs for Aboriginal and Torres Strait Islander girls, with mentoring to help students complete Year 12.

The Girls Academy is the flagship program of Role Models and Leaders Australia, which was founded in 2004 by Olympian and champion basketball player, Ricky Grace, to address funding shortfalls for Aboriginal and Torres Strait Islander girls by assisting them to attend and finish high school, as well as to assist them plan for future study and employment opportunities.

Today, the Girls Academy program operates at 46 schools across Australia, with over 2,800 enrolments. The program works within the school system to drive community-led solutions aimed at overcoming the obstacles of educational disadvantage that prevent Aboriginal and Torres Strait Islander girls from attending and excelling at school.

"Our program increases the skills, employability, mental health and wellbeing of Aboriginal and Torres Strait Islander girls throughout Australia, providing them with better opportunities to contribute to the social and economic outcomes of the wider community," says Girls Academy grants co-ordinator, Kirsten Grant.

"Academy girls are ready to make an economic contribution to our nation and to be part of the social change that is 'closing the gap'.

GRANT RECIPIENT:
Girls Academy

GRANT AMOUNT:
$10,000

ENDORSED BY:
Simon Chesson CFP®

FPA CHAPTER:
Western Australia

Girls Academy equips girls with the tools they need to engage in their education, achieve their goals and change their communities."

As Executive Finance Director of FPA Professional Practice – AustAsia Financial Planning, Simon Chesson CFP® has had a long involvement with the Girls Academy, having been instrumental in establishing Role Models and Leaders Australia, of which the Girls Academy is the leading program. He continues to play a vital role within the organisation as Chairman and Chief Financial Officer.

Through his 15-year association with the Girls Academy, Simon has seen firsthand the beneficial effects the program has had on improving the financial literacy, health and wellbeing, education and cultural connections of Aboriginal and Torres Strait Islander girls in Years 7 to 12.

And the Future2 grants committee agreed, awarding the Girls Academy a $10,000 grant.

"The Girls Academy Program is extremely important as it does two things: it empowers women, because if we 'Develop a Girl' we can 'Change a Community'; and it assists young Aboriginal and Torres Strait Islander women close the gap with the rest of Australia," Simon says.

THE GIRLS ACADEMY

The four primary aims of the program are:

1. Increase school attendance;
2. Advance academic and personal achievement;
3. Improve Year 12 graduation rates; and
4. Facilitate post-school plans.

Each of the 46 schools across Australia where the Academies are based, has a dedicated Girls Academy Room, which is a safe, nurturing sanctuary for girls, which is staffed with mentors.

According to Simon, the key to the success of the Girls Academy program is that it is not a top-down, one-size-fits-all approach, but a community-led initiative tailored to suit the needs of individual communities.

Each Girls Academy has a local advisory committee, made up of predominantly indigenous members, who guide the design and implementation of the program.

Seventy-four per cent of the program's staff are Aboriginal or Torres Strait Islander women, who deliver a program that includes mentoring, homework support, cultural connection resilience and wellbeing activities, and career pathway events like professional networking, traineeships and university visits.

The program empowers students through its five core program components: wellbeing; physical activity, health and nutrition; cultural knowledge and understanding; future pathways and careers; and community engagement and leadership.

"We aim to maximise Aboriginal and Torres Strait Islander students' attendance to ensure our ultimate objective of Year 12 completion. Current attendance rates nationwide are 11.2 per cent higher in schools with a Girls Academy compared to the total Aboriginal and Torres Strait Islander student cohort," Kirsten says.

The Girls Academy is further investing in its Aboriginal and Torres Strait Islander high school students by extending support post-school, aiming to assist girls for an extra two years.

MAKING A DIFFERENCE

Kirsten says the Future2 grant is helping to make a difference by improving the lives and futures of disadvantaged Aboriginal and Torres Strait Islander girls.

She says most girls in the program have backgrounds where poverty, and its consequences, such as poor health, poor education, exposure to substance abuse, lowered life expectancy and disconnectedness from culture, are common. And the statistics are sobering.

According to Kirsten, Aboriginal and Torres Strait Islander girls use illicit drugs 1.6 times more than their non-indigenous peers, Aboriginal and Torres Strait Islander teen pregnancy rates are 5.48 per cent higher than mainstream rates, and hospitalisation rates from domestic violence are 35 times more likely.

This program is making a substantial difference in the lives of at-risk Aboriginal and Torres Strait Islander girls across Australia.

– Simon Chesson CFP®

"Closing the Gap statistics demonstrate that Aboriginal and Torres Strait Islander education levels need urgent improvement. Aboriginal and Torres Strait Islander school attendance rates are approximately 10 per cent lower than non-indigenous (20 per cent in remote areas) and Year 12 attainment for Aboriginal and Torres Strait Islander students is around 29 per cent lower, with suicide rates five times greater," Kirsten says.

Government statistics reveal that Aboriginal and Torres Strait Islander girls trail their non-indigenous peers in every social measure: health, education, employment opportunities, earning capacity and life span.

"However, our program addresses educational disadvantage. The Academy helps our students engage and finish high school, and plan for the next stage of their life," Kirsten says. "Year 12 enrolments are increasing by 276 per cent and to date, the Girls Academy has worked with over 11,200 students."

ADDRESSING INEQUITY

Simon is delighted the Girls Academy was able to secure a Future2 grant.

"This program is making a substantial difference in the lives of at-risk Aboriginal and Torres Strait Islander girls across Australia," he says.

"Back in 2004, we started the Girls Academy to address the inequity in educational support programs for vulnerable Aboriginal and Torres Strait Islander girls, and have succeeded in helping many of them overcome barriers that have prevented them from attending and finishing high school."

Simon Chesson CFP® is Executive Finance Director of AustAsia Financial Planning, which is part of the FPA Professional Practice program that recognises the highest calibre financial planning practices within the profession.

The Girls Academy is addressing inequity in educational support programs for Aboriginal and Torres Strait Islander girls.

SETTLING ON DOWNSIZER CONTRIBUTIONS

Josh Rundmann

IOOF

This article is worth
0.5 CPD hours

ASIC Knowledge Area
Superannuation

FASEA CPD Areas
Technical competence

INCLUDES:

- What does it mean to downsize?
- Subdividing the family home
- Retirement living and downsizing
- Getting it wrong

Since its announcement, the downsizer contribution has continued to draw attention as a unique opportunity to help older Australians maximise their retirement savings. However, the rules around making a successful downsizer contribution are often misunderstood.

This article explains some of the common misconceptions about downsizer contributions, as well as offering some tips and traps to help maximise this opportunity.

BASIC RULES

At a high level, a downsizer contribution can be made when the following conditions have been met.

- The individual is age 65 or over at the time they make the contribution;
- The individual, their spouse or former spouse has sold an interest in a dwelling they have held for 10 years – which is not a caravan, houseboat or other mobile home;
- The gain/loss from the sale is at least partially disregarded under the main residence capital gains tax (CGT) exemption; and
- The contribution is made within 90 days of settlement, and the appropriate paperwork is given to the super fund at or before the time the contribution is made.

The maximum downsizer contribution is the lesser of $300,000 per person or the proceeds received from the sale of the interest in the property. The amount contributed into super is exempt from the non-concessional contributions (NCC) cap.

WHAT DOES IT MEAN TO DOWNSIZE?

One of the most common misunderstandings in relation to downsizer contributions is that no downsizing needs to occur. The eligibility criteria simply require the sale of a property, which receives at least a partial main residence CGT exemption – what happens after the sale is irrelevant. A client can even 'upsize' their property and still make a downsizer contribution, or they can use the sale of the home as an opportunity to undertake a withdrawal and recontribution strategy by recycling money out of super and recontributing as tax-free downsizer contribution monies, if they do not have any excess funds from the sale of their home.

SOCIAL SECURITY CONCESSIONS

When the downsizer contribution was announced, it was confirmed that amounts contributed under the downsizer rules would not receive any specific social security concession. However, there has been discussion as to whether amounts contributed under the downsizer rules could benefit from existing social security rules.

There is an existing concession which allows the proceeds from the sale of a home to be exempted from assets testing for 12 months (and in some cases, longer) where those funds are intended to purchase a new residence. The key is ensuring the intention is genuine. As Centrelink has the power to determine when the client ceases to intend to use the money to purchase a new residence, actions such as investing in longer term assets, may indicate the intention to purchase a new home is questionable.

SUBDIVISION OF THE FAMILY HOME

Many properties that have been owned for a long period of time are situated on larger blocks of land, and as populations grow, these older blocks may provide a significantly higher sale value if they can be divided into two, or more, separate titles for sale.

So, does the subdivision of land impact the ability to make a downsizer contribution? Yes, it potentially can. Let's consider a subdivision where the owner splits his existing home into two properties; one with the original dwelling in which the family continue living, and a second vacant block.

Main residence CGT exemption impacts

The subdivision itself is not a CGT event, and each underlying parcel is taken to have been acquired at the time of the original property purchase, with the cost base apportioned between them on a reasonable basis – so the 10-year condition is met. However, under the *Income Tax Assessment Act 1997*, section 118-165, the main residence exemption is not available to adjacent land that is sold separately to the dwelling itself. This means that if the vacant block is sold separately to the block with the home, no main residence CGT exemption applies.

What if both blocks are sold at the same time? The requirements for a downsizer contribution include that an ownership interest in a 'dwelling' is disposed. Dwelling is a term defined in the *Income Tax Assessment Act 1997*, section 118-115, to mean a unit of accommodation that is contained in a building and consists mainly of residential accommodation, as well as the land immediately under the unit of accommodation.

Using this definition, the block with the home retains a dwelling while the second block does not. However, as the adjacent land, being the vacant block, is being sold in the same transaction as the home it may, in some situations, be possible to extend the main residence exemption using the *Income Tax Assessment Act 1997*, section 118-120, to this second block. In this situation, the total proceeds of the sale of both blocks are considered in determining the amount which could be contributed as a downsizer contribution.

Multiple main residences

If the client was to build a dwelling on the second block and live in the new dwelling as their main residence, this could allow the client to choose which property is able to be used to fund the downsizer contribution, as both properties would qualify for a partial main residence exemption – at least in theory. A problem arises with whether the profits from the subdivision are now to be recorded on capital or revenue account and therefore, potentially treated as ordinary income. The ATO will treat the amount as profit and proceeds as income if:

- the intention of entering into the transaction was to make a profit, and
- the transaction was entered into either:
  - in the course of carrying on a business, or
  - in the course of carrying out a business operation or commercial transaction.

+

One of the most common misunderstandings in relation to downsizer contributions is that no downsizing needs to occur.

The ATO in taxation ruling 92/3 outlines the requirements for a transaction to be considered a business operation or a commercial transaction to include the nature and scale of activities undertaken, the amount of money involved, the complexity and scale of the operation and the manner in which the transaction has occurred.

No single factor will determine whether the transaction meets this threshold, so clients should consider obtaining tax advice or a private binding ruling to be completely clear on whether their subdivision and build will be captured on the capital account or the revenue account.

WHAT IF THE HOME IS DESTROYED?

In situations where a home is destroyed, the owner may not wish to rebuild but instead simply move on by selling the remnants of the property without subjecting themselves to the stress of building a new residence upon it.

In this situation, the *Income Tax Assessment Act 1997*, section 118-160, allows the main residence exemption to apply, even though no dwelling is on the property. However, the downsizer contribution requirements are explicit in that what needs to be disposed is a dwelling, as described above.

There are allowances within the downsizer contribution rules for properties that have been compulsorily acquired and a replacement property obtained, however, there is no equivalent relief to 'deeming' a dwelling to be on a property in the case of destruction of the previous home.

In such situations, the client will need to construct a new dwelling on the property to qualify for a downsizer contribution.

RETIREMENT LIVING AND DOWNSIZERS

Retirement villages continue to grow in popularity among older individuals, and with increasing life expectancies and facilities providing opportunities for residents to 'age in place', the average length of a stay in retirement living arrangements appears to be growing.

Generally speaking, a retirement village does not give you a freehold title to the home, but rather a long-term leasehold interest. To qualify for the main residence exemption, as well as the downsizer contribution, you need to have disposed of an 'ownership interest' in a dwelling.

Fortunately, the definition of ownership interest in the *Income Tax Assessment Act 1997*, section 118-130, is quite broad. You are taken to have an ownership interest in a dwelling if

Continued overleaf

you have a legal or equitable interest in the land on which a dwelling is erected, or in the case of a home unit, an interest in a stratum unit, a share in a company that has the legal ownership of the land on which the dwelling sits with an accompanying right to occupy it, or a licence or right to occupy the flat or home unit.

Generally, the rights afforded under a retirement village agreement give you a right to occupy a specific unit, so most arrangements would meet the ownership interest threshold.

However, not all retirement villages are equal. For the downsizer contribution, the ownership interest cannot be in a dwelling that is a caravan, houseboat or other 'mobile home' – none of which are defined, so their ordinary meaning is to be taken. Certain retirement villages allow you to purchase outright a discrete unit of accommodation, however, the purchase does not come with any rights to the land on which the unit sits, so the owner is instead required to pay site fees to rent the land.

This specific accommodation arrangement is able to be moved, and under various state laws, these dwellings are given special allowances by being designated 'mobile homes'. There are Centrelink benefits for clients who live in these mobile home parks, as well. As an example, the purchase of the dwelling will provide security of tenure for the homeowner test, while the fact they are living in a mobile home also allows pensioners to receive rent assistance in some cases.

Clients living in these mobile home park arrangements may find themselves missing out when it comes to a downsizer contribution, as the dwelling may be categorised as mobile and does not qualify.

MULTIPLE AMOUNTS RECEIVED FOR PURCHASE

The average property sale will involve the purchaser paying a deposit at the time of signing the contract, with a second settlement amount paid at the time the title of the property is transferred. In such a case, the seller will usually receive the net proceeds as a single amount at settlement. However, in some states, it is possible to release the deposit before settlement.

The downsizer contribution rules allow for multiple contributions to be made in relation to one sale, however, there is also a requirement that the contribution is made within 90 days of the change of ownership occurring. For the above scenario, this timeframe is easy to meet, but sometimes less common purchase arrangements, such as vendor financing, can involve sale proceeds being received well after the actual change of ownership.

While some clients may be limited by the 90-day timeframe to make their downsizer contribution, there is a specific statutory discretion that allows the ATO to extend the 90-day window. The ATO must exercise its discretion before a valid downsizer contribution can be made after the 90-day window.

WHAT IF YOU GET IT WRONG?

If the ATO determines that a downsizer contribution has been made incorrectly, it can direct the receiving super fund to treat the contribution as if it was not a downsizer contribution. What this means in practice is the APRA fund must re-assess whether the fund was in a position to accept the contribution under *Superannuation Industry Regulations 1994* (SIS) regulation 7.04, which contains the age-based restrictions on superannuation contributions.

Essentially, the contribution now needs to be assessed as a personal contribution. If the individual was over 75 at the time the contribution was made, the fund will have 30 days from when notified by the ATO to refund the contribution. If the individual was under 75, the super fund will need to determine if they had met the work test or the criteria for the work test exemption, and only if neither of those conditions is met, is the contribution refunded.

One of the lesser-discussed changes as part of the 2017 'fair

QUESTIONS

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

1 What timeframe does an individual generally have to make a downsizer contribution?

a. 28 days after the end of the month in which the property settles.
b. 90 days from the change of ownership of the property.
c. 90 days from signing the contract of sale, or the date of receiving the proceeds.
d. Any time after the sale. There is no time limit.

2 Is it possible to make a downsizer contribution using vacant land?

a. Yes, there are no restrictions on having a dwelling on the property.
b. Yes, but only if the dwelling was destroyed by fire.
c. No, a dwelling is required to qualify.
d. Yes, but only if the ATO provides an exemption.

3 If a downsizer contribution is disallowed, what is the super fund initially required to do?

a. Immediately refund the contribution.
b. Determine whether they were able to otherwise accept the contribution under SIS regulation 7.04.
c. Treat the contribution as a non-concessional contribution.
d. Treat the contribution as a concessional contribution, taxing the contributed amount.

4 A retirement village will qualify as a dwelling for a downsizer contribution if:

a. There is a central management team who administer the village.
b. There are at least 50 residents in the village.
c. The dwellings are not mobile.
d. All of the above.

5 Does subdividing a property mean a downsizer contribution is no longer able to be made?

a. Yes, the subdivided properties are considered new assets and the 10-year ownership period resets.
b. No, any subdivided blocks will still qualify, as they came from the original block.
c. No, however, the block with the dwelling upon it must be sold to qualify – the other blocks sold individually do not qualify.
d. Yes, there is a permanent loss of the ability to make a downsizer contribution, as the venture is now potentially producing assessable income.

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and sustainable' super reforms was the removal of the fund-capped contribution restriction in SIS regulation 7.04. This required a super trustee to reject any single contribution that was in excess of the annual non-concessional contributions cap based on the member's age.

If the fund-capped rule was still in place, this would have allowed super funds to refund the disallowed contribution in excess of the non-concessional contribution cap, reducing any excess contributions issues – but in its absence, funds are severely restricted from refunding amounts when the member has met the work test.

As such, individuals under age 75 who are still working when they make a downsizer contribution, could inadvertently breach the non-concessional contributions cap simply because they did not submit the correct paperwork at the time of the original contribution.

In some cases, the super fund may not be in a position to refund the whole contribution due to fees, negative investment return or pension payments, for example. In this case, according to CRT Alert 039/2019, the ATO expects the super fund to re-report the amount of the contribution that cannot be returned as a non-concessional contribution. This can in turn create excess contribution issues based on money which may no longer be within the super environment.

It is worth keeping in mind that even an individual who is over the age of 75 has a non-concessional cap of $100,000. This is despite the fact that SIS regulations are written in such a way that the individual cannot access this cap.

For example, an individual aged 80 makes a $300,000 downsizer contribution, which is subsequently treated as ineligible by the ATO. At the time the ATO advises the super fund of this, the member's balance has reduced to $270,000. The fund returns the $270,000 to the individual, and then reports a non-concessional contribution of $30,000 covering the difference. Despite the fact the individual could not make a non-concessional contribution, the $30,000 will count towards their $100,000 cap. In this situation, no excess issues exist.

Josh Rundmann, Technical Services Manager, IOOF TechConnect.

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