



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

2023 - 24 PRE-BUDGET SUBMISSION



Who is the FPA?

The Financial Planning Association of Australia (FPA) is pleased to contribute to the Australian government's 2023-24 budget process.

The FPA is a professional body with more than 10,000 individual members and affiliates of whom over 9,000 are practicing financial planners and almost 5000 are CFP® professionals. Since 1992, the FPA has taken a leadership role in the financial planning profession in Australia and globally:

- **CONSUMER-FOCUSED**
It supports access by all Australians to affordable and professional financial advice and ensures consumers' interests are advanced when accessing financial advice.
- **PROFESSIONAL**
It enhances the professionalism of financial planning and promotes the health of the financial planning profession as a whole.
- **ASPIRATIONAL**
It reflects best practice and the aspiration of members of the Financial Planning Association of Australia to set and meet higher standards of professional competence and conduct.

These are the core values that formed the foundation of the FPA's policy platform - Affordable Advice, Sustainable Profession¹, released in June 2020.

As many Australians have now returned to a post-pandemic new-normal, they are looking to their own futures. Financial planners are ready, willing and able to help them achieve more secure financial outcomes.

The challenges facing financial planning in Australia

According to the most recent statistics, there were 15,841 registered financial advisers as at December 2022, a 1,328 decrease over the calendar year. Demand for advice continues to outstrip supply which is, in turn, making it more challenging for Australians to access financial advice and raise the financial literacy of the nation.

The cost of providing advice is also rising. Work undertaken by CoreData on behalf of the FPA indicates that the cost of advice sits at \$4,545 at the end of 2022. While it may take some time for these costs to trickle on to the consumer, it is clear that providing advice is becoming unsustainable.

The numerous factors contributing to increased costs for financial planners include the indirect expenses of complying with a changing regulatory landscape as well as the direct costs of fees and levies imposed by the Government on financial planners. Each of these factors affects the affordability and therefore accessibility of financial advice.

The single biggest barrier to entry for most Australian consumers looking to get financial advice is cost. Tax deductibility would go some way to make it more affordable for more consumers. As we will detail below, there are principled reasons as to why financial advice should be made tax deductible from a policy perspective as well as the reasons that directly benefit the consumer.

Similarly, the FPA supports the cost-recovery of some regulatory expenses. We believe it is important for the financial services sector to contribute to the cost of regulating the profession and

¹ 'Affordable Advice, Sustainable Profession', FPA Policy Platform, 3 June 2020, <https://fpa.com.au/financial-planning-advocacy/fpa-policy-platform/>.

the broader sector as well as support adequate protections for consumers. Industry and consumers benefit from a strong regulatory framework that promotes public confidence in the sector and encourages Australians to seek advice and raise their financial literacy.

However, it is important that regulations and regulators are delivering on their important purpose in an efficient and effective manner, to ensure Government, consumers and industry are receiving value for money from this cost-recovery. The Australian Government Cost Recovery Guidelines provide that the Government should consider a number of factors in deciding how to implement cost-recovery, including the impact on competition, innovation, and the financial viability of those who may need to pay the costs of regulation.

Changing standards and regulations are being applied on top of an already complex regulatory framework that has evolved over many years. While the FPA has supported, in principle, the implementation of a number of individual reforms, we believe it is critically important for the Government to act to simplify this now highly complex and sometimes contradictory regime, to support the long-term viability of the financial planning profession.

Many in the profession work as sole traders or in a small or medium-sized practice. Their capacity to absorb additional regulatory changes and increased costs is extremely limited. The ever-changing regulatory environment and increasing costs can result in financial advice becoming more still more unaffordable and inaccessible for many Australians.

As such, FPA proposes two policy areas for inclusion in this year's Budget. Both directly benefit consumers, and the second will also help to provide surety for the profession. Coupled together they will allow financial planners to do what they strive to do: partner with Australians to secure their financial futures.

Recommendations

All financial advice should have tax deductible status. This should be regardless of whatever stage in the financial advice process it is provided, and whether it directly relates to the creation of investment income.

To help address the important issue of making financial advice accessible and affordable for all Australians, the FPA has continued to advocate for all financial advice to be tax deductible. We recommend that the Government provide tax deductible status to all financial advice regardless of at what stage in the process the financial advice is given.

We note that the Australian Tax Office (ATO) has at Advice Under Development 4055 committed to looking into the tax deductibility of financial advice. FPA would encourage the government to proactively provide surety to the sector by including this offset in this year's Budget.

Tax treatments of financial advice occur in numerous ways, dependent on the nature of the advice sought and when it is provided. As an example, the ATO has determined that a fee for service arrangement in the preparation of an initial financial plan, is not tax deductible. However, ongoing advice fees are treated as tax deductible as they are deemed to have been incurred in the course of gaining or producing assessable income.

Treating the creation of an initial financial plan in a different fashion to that of ongoing advice provides a disincentive for Australians to seek financial advice which will assist them to actively plan, save and secure their financial future. It also acts as a further barrier for Australians who have not previously sought or received financial advice.

This current tax treatment results in the benefits of available deductions for ongoing financial advice being skewed towards those of higher net wealth and incomes, and who can already afford financial advice for their established investment portfolios.

Increasing the accessibility and affordability of financial advice for all Australians, particularly for those on lower incomes, will provide for a more financially competent community, with Australians becoming more financially literate and better able to support themselves, especially during retirement.

Whilst the provision of tax deductibility for fees associated with the preparation of an initial financial plan would result in some costs to the budget, such costs must be compared to the long-term advantages of the development of a more financially literate community. To offset impacts on the budget, the inclusion of caps on the amount of any tax deductions or a cap on income for those able to receive a deduction, could be adopted.

We also believe there is an economic good to come from more people accessing financial advice as it tends to lead to a lower reliance on social services such as the age pension with more dependence on personal assets come retirement.

We encourage the government to use this moment to open financial advice to a large swathe of the Australian public for whom it is currently out of reach.

The design and implementation of the proposed Compensation Scheme of Last Resort (CSLR) must ensure:

- a. The costs of establishment and any legacy claims relating to the proposed Compensation Scheme of Last Resort should be borne by Government.**
- b. The costs associated with the administration of such a scheme are closely monitored and scrutinised to ensure the cost recovery from industry primarily funds consumer redress rather than unnecessary red-tape, bureaucracy and administration within the scheme.**
- c. That industry cost recovery levies reflect the risk of a practitioner's sub-sector to the broader scheme, and its design should reflect a broad funding base that includes all participants in the financial services industry, to ensure sustainability and equity.**

The FPA broadly supports recommendation 7.1 of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne Royal Commission) to establish a CSLR. However, the Government's proposed model, which appears to be based on recommendations and data included in Final Report of the Review of the Financial System External Dispute Resolution and Complaints Framework (Ramsay Review) from 2017, is based on recommendations from an ageing report, based on out-of-date data which reviewed a regulatory system far different from that of the profession today.

We note as well that legislation to enact the CSLR is currently paused and not before the parliament. FPA would advocate for a global rethink of the operation of the CSLR that benefits consumers more directly and runs more efficiently.

Rather than a broad-based scheme that extends across all participants in the financial services industry, the currently proposed CSLR would only apply to:

- personal advice on relevant financial products to retail clients,
- credit intermediation,
- securities dealing,
- credit provision, and
- insurance product distribution.

As such, we believe that the previously introduced legislation to establish such a scheme was too narrow in scope, provided inadequate coverage to consumers, and did not seek to address some of the underlying causes of unpaid determinations. For example, such a scheme would not have protected consumers who invested in faulty financial products without advice.

In short, the proposed model leaves consumers unprotected and financial planners footing the bill.

To remedy this, we believe the Government should amend the proposed legislation to establish the scheme so that its design reflects a broader base that includes all participants in the financial services industry. This could be achieved by broadening the scope of the scheme to include the entirety of the jurisdiction of the Australian Financial Complaints Authority (AFCA). Such amendments would ensure equity for industry and consumers as well as long-term sustainability for the scheme.

However, there has been little concrete information available to indicate the costs of the establishment and operation of the scheme for financial advisers. Based on information included in

the Treasury Compensation Scheme of Last Resort Proposal Paper of July 2021² (Treasury Proposal Paper), financial advisers would be responsible for more than 75% of the cost of the scheme which would include the establishment, administration and capital reserve costs. The administration costs alone are proposed to amount to \$3.7 million per annum, which would account for some 46% of the total annual operating costs of the scheme³.

Whilst we do not object to contributing to consumer redress, it seems unjustifiable to see up to half of the value of the industry cost recovery levies expended on administration and red tape on an annual basis. Therefore, the efficiency of the operation of the scheme must be closely scrutinised to ensure it represents value for money and is fair for contributors and effective for consumers.

Further, contributions by participants in the scheme should reflect their sub-sector's current risk. This will ensure more equity across the financial services industry by ensuring the size of contributions is tied to the sector's behaviour and risk profile. This in turn will encourage every participant to play a role in lifting standards across the industry.

We also welcome the Government's commitment to 'consult on proposals to enhance the effectiveness of professional indemnity (PI) insurance in responding to compensation claims'⁴. We believe that it would be prudent for this consultation and review to be completed prior to the implementation of any CSLR. An efficiently-functioning PI insurance segment would substantially reduce the number and value of consumer harms that would require redress from the CSLR.

Additional details of these recommendations can be found in the FPA's most recent submissions on the proposed CSLR at the following links:

- **FPA Submission** to the Senate Economics Legislation Committee Inquiry into the *Financial Accountability Regime Bill 2021* [Provisions] and *Financial Services Compensation Scheme of Last Resort Levy Bill 2021* [Provisions] and related bills:
<https://www.aph.gov.au/DocumentStore.ashx?id=829aee3b-8bcd-4cb1-81fc-38b5a6753551&subId=717893>
- **FPA Submission** to the Senate Economics References Committee Inquiry into the Stirling Income Trust:
<https://www.aph.gov.au/DocumentStore.ashx?id=15b8bd7a-895d-463b-ad14-26da6219e488&subId=717077>

² Compensation Scheme of Last Resort (CSLR) Proposal Paper, The Treasury, July 2021, https://treasury.gov.au/sites/default/files/2021-07/186669_compensationschemeoflastresort-proposalpaper.pdf.

³ Based on a projected \$4.36 million in unpaid determinations per annum.

⁴ Media Release, 28 October 2021, the Hon. Josh Frydenberg MP (Treasurer) and Senator the Hon. Jayne Hume (Minister for Superannuation, Financial Services and the Digital Economy), 'Government meets legislative commitments in response to Hayne Royal Commission', <https://ministers.treasury.gov.au/ministers/jane-hume-2020/media-releases/government-meets-legislative-commitments-response-hayne>.
