Challenger Financial Standard

TECHNICAL SERVICES FORUM

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FS Advice
> The Australian Journal of Financial Planning

Objective Based Advice

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Agenda

- Why Objective Based Advice?
- Benefits of OBI and the future of advice
- Implications for strategy and solutions

About FAM

OBA	Objectives Based Advice: putting a customer's lifestyle goals and objectives at the core of the advice process.
PRIME	Supporting **objectives-based customer conversations**, with a strategy engine and interactive modelling capabilities
XPLAN	Converting COIN to XPLAN across WM Advice, enabling future technology enhancements that will deliver cost and operational efficiencies to all licensees
Productivity	11 hours touch time reduced to 6 hours

Why Objectives Based Advice?

The importance of tracking

Enabling customers to stay on track

60% of advice customers **don't know if they are on track** to achieve their lifestyle objectives and goals...

... but **89%** who are on track **see the value of advice**, and **60%** of those are likely to **refer family and friends.**

Value – what clients want

How do customers perceive value?

70% said value was about more than investments[1].

72% said being kept on track was an important part of value[1]

"Our clients want more than advice based on numbers, they want confidence their future is secure and their dreams can be a reality" David Hamer, Senior Financial Planner

[1]Defining and Articulating Your Value – Adviser Impact 2012

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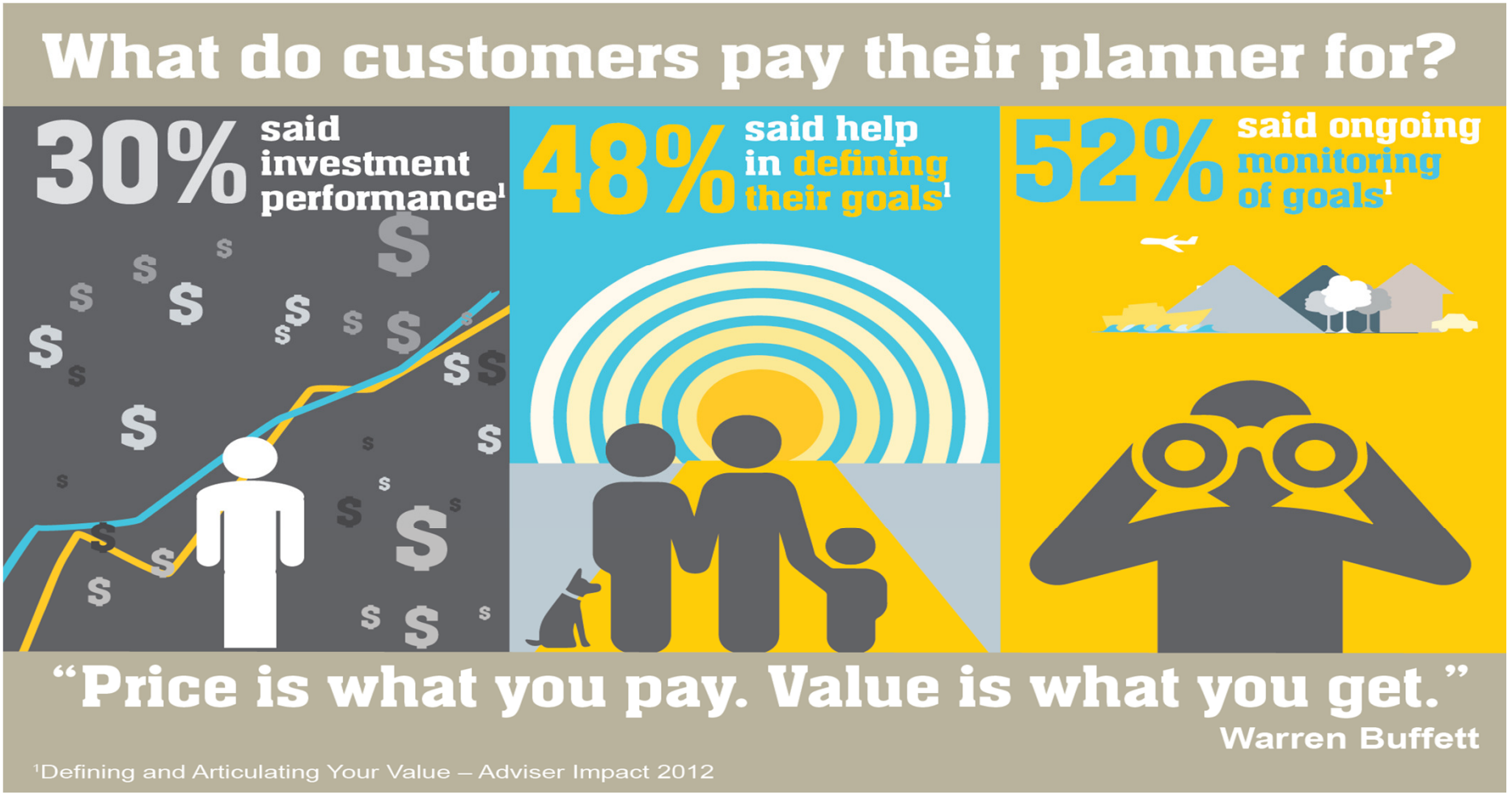
How customers see value



Objective Based Investing

Multi-Manager	• Matched to risk profiles • Multi-manager multi-sector • Multi-index
Advice Research Model Portfolios	• Matched to Risk Profiles • Accumulation • Income • Low Cost • Retirement
Adviser Discretionary	• Where the above don't meet client needs & objectives

Objective Based Advice

Identify objectives

Assess tolerance/capacity for Risk

Multi-Manager

Advice Research Model Portfolios

Questions ?

THANK YOU

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Graeme Colley

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Technical & Private Wealth

SuperConcepts

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Super Concepts

Crossing the Rubicon
pensions to lump sums and back again

Pensions

Lump sums

Super Concepts

What you need to know

This presentation may contain advice. Any advice is of a general nature only and may contain advice that is not based on your personal objectives, their financial situation or needs. Accordingly you should consider how appropriate the advice is to your personal objectives, financial situation or needs.

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Use of superannuation

SuperConcepts

Back to basics

Includes:

- Investment choice
- Flexibility
- Transparency
- Cost control
- Estate planning
- Tax and financial planning advantages

Role of super in a client's investment set up

SuperConcepts

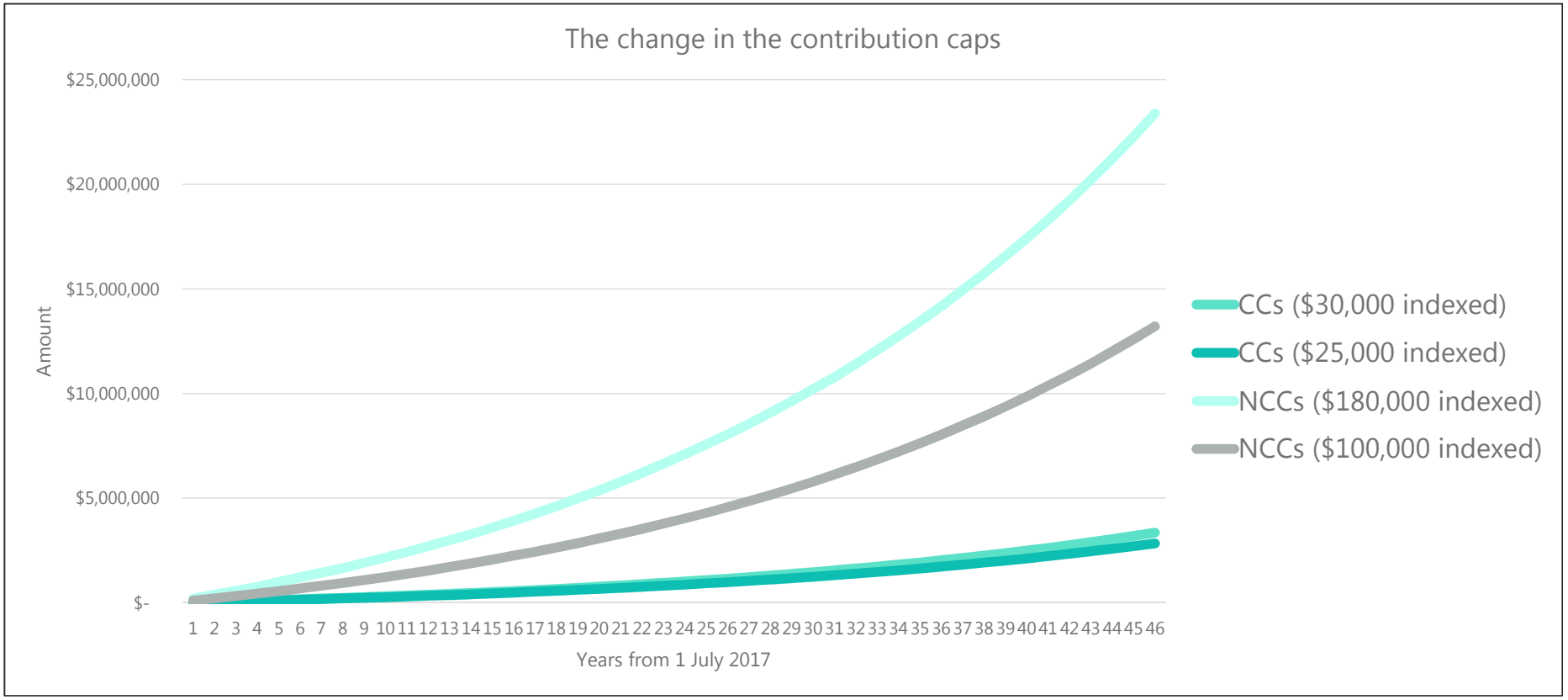
- Arbitrage in tax rates:
  - 49% maximum personal rate
  - 15% in super fund flat rate
- Income and capital gains in pension phase tax free
- Deciding which assets to have in super
- Bankruptcy protection
- Estate planning within the fund
- Retention of assets within the fund for intergenerational transfer

Super Concepts

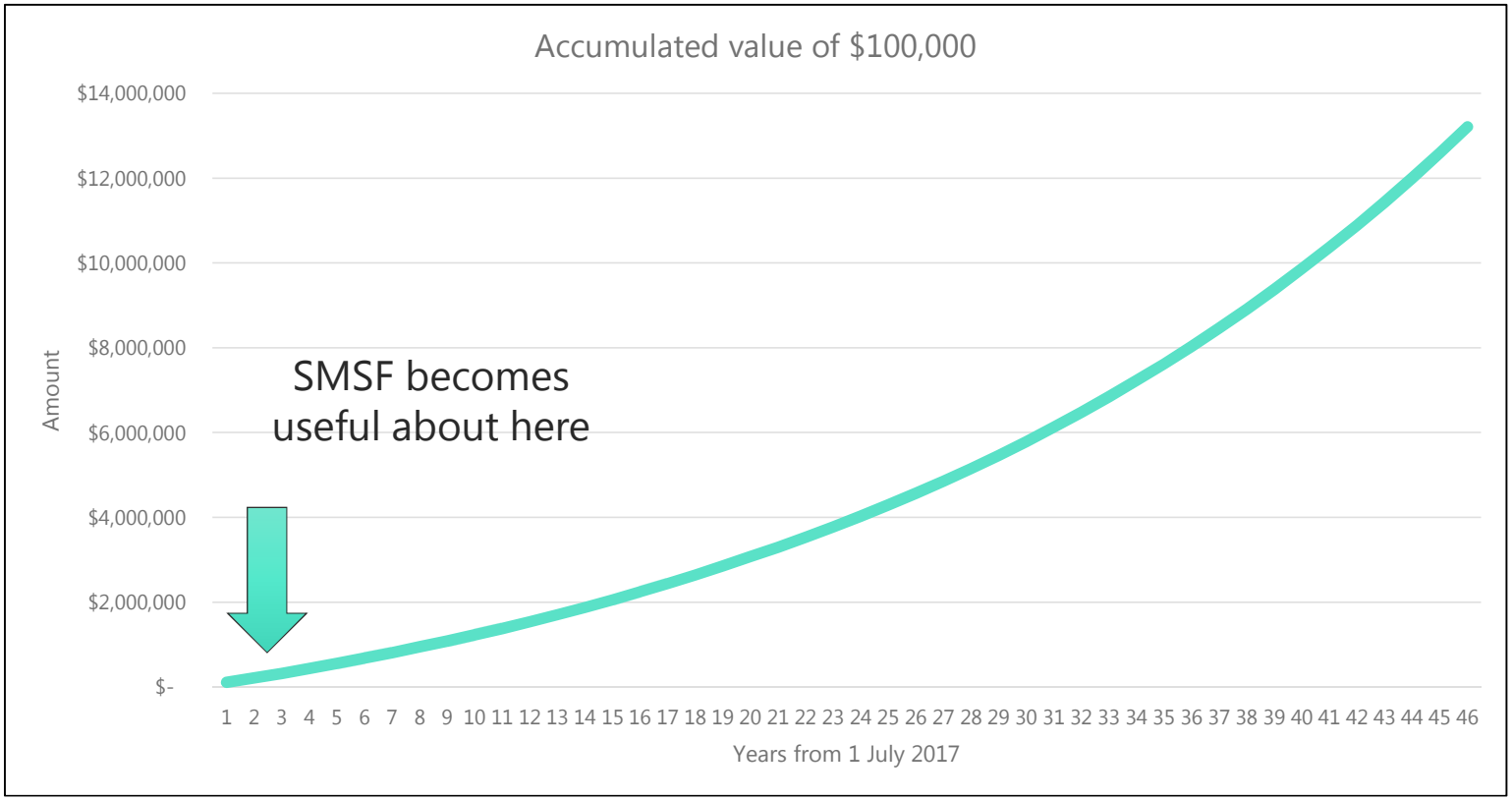
The contribution and balance caps

Materiality of tax concessions?

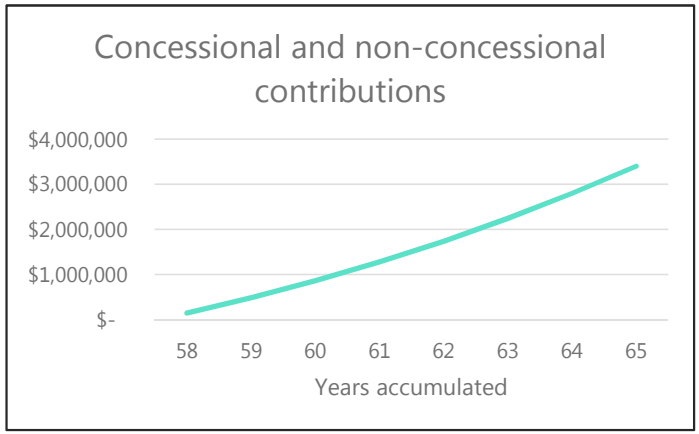
SuperConcepts



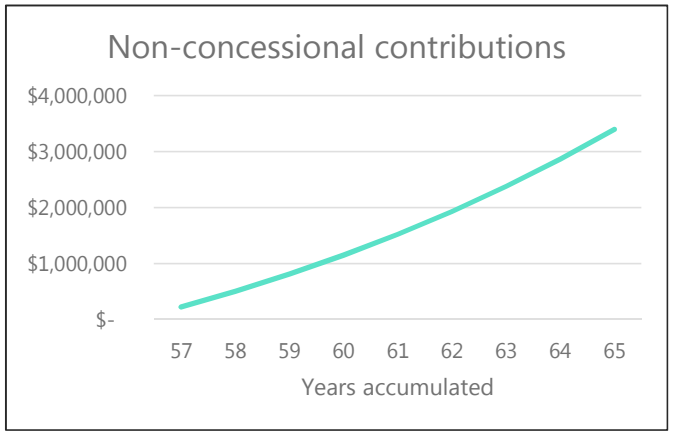
$100k non-concessional cap – enough to warrant an SMSF



Length of time to get to the required amount

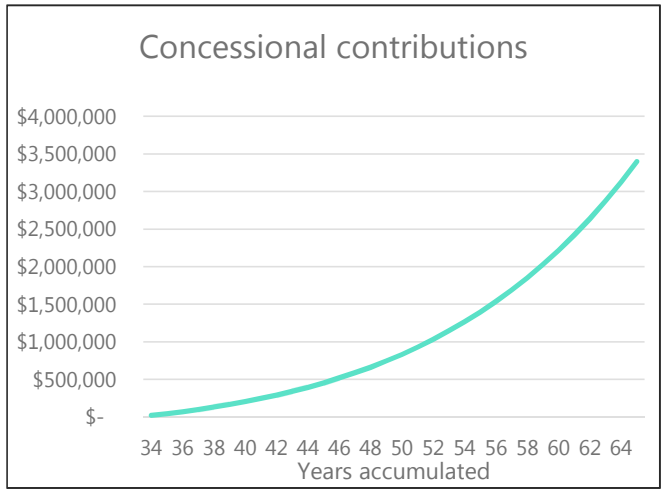


8 years



9 years

Client is 33 wishes to have the indexed amount in the fund by retirement by age 65.
(32 years)
Indexed amount at age 65 is $3.4 million



32 years

CPI 2.5%
Earnings 7% (incl. capital gains) less tax

Super Concepts

Moving from pension to accumulation phase and back again

(Let's cross the Rubicon)

Resetting the cost base for CGT purposes

SuperConcepts

30 June 2017 – What is required to be done with current pensions?

Unsegregated pension assets

- Proportional method used to reset cost base before 1 July 2017

Segregated pension assets

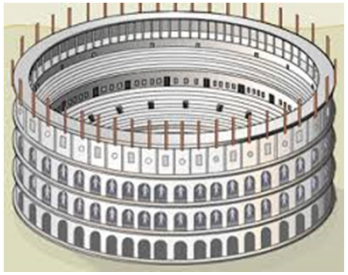
- Cost base for pension assets is reset before 1 July 2017

Unsegregated pension assets

Looking at cost base resets – are they worthwhile?

- Samson is in receipt of an income stream
- Delilah is in accumulation phase

- The fund has one asset – a colosseum – value $3 million
- 2/3rd of the asset relates to Samson's income stream
- 1/3rd of the asset relates to Delilah's super balance



Example 1.47 in EM

SuperConcepts

Samson	Delilah	Total
$2,000,000		$2,000,000
	$1,000,000	$1,000,000
$2,000,000	$1,000,000	$3,000,000

ECPI – 2016/17 66.67%

Samson partially commutes $500,000 of his pension

Market Value of Assets	$3,000,000
Cost Base of Asset	$2,500,000
Capital gain of reset	$500,000

To get to $1.6 m Samson only needed to commute $400k

ECPI – 2017/18 and in future - 50%

Amount of gain as a result of the cost base reset in 2016/17

Capital gain	$500,000
Apply ECPI 2016/17 (66.67%)	$333,333
Assessable gain	$166,667

Assessable gain from example in EM

Assessable gain is deferred until the asset is sold or expiry of 10 years, whichever occurs first

Assessable gain – deferred until the asset is sold or after 10 years

SuperConcepts

Fund sells asset in 2020 to Brutus Thugarus Super Fund	
Sale price	$4,000,000
Less: reset cost base	$3,000,000
Gross gain	$1,000,000
Apply 1/3rd CGT discount	$333,333
Net gain	$666,667
Apply ECPI 2019/20 (50%)	$333,333
Assessable capital gain	$333,333
Add: deferred gain from reset cost base	$166,667
Total assessable amount 2019/20 – taxed at 15%	$500,000

Example as provided in 1.47 of EM

What would happen if the cost base was not reset?

SuperConcepts

No capital gain calculated in 2016/17	
Capital gain in 2019/20 when asset is sold	
Sale price	$4,000,000
Cost base (original)	$2,500,000
Gross Gain	$1,500,000
Apply 1/3rd CGT discount	$500,000
Net gain	$1,000,000
Apply ECPI 2019/20 (50%)	$500,000
Assessable capital gain taxed at 15%	$500,000

Same result as EM cost base reset option

What would happen if CGT discount applied when cost base reset is done

SuperConcepts

Capital gain from reset	$500,000
Apply 1/3rd CGT discount	$166,667
Net gain	$333,333
Apply ECPI 2016/17 – 66.667%	$222,222
Assessable gain	$111,111
June 2020, fund sells assets	
Gain of capital gain is same – that is	$333,333
Add: deferred gain from reset cost base	$111,111
Total assessable amount 2019/20 – taxed at 15%	$444,444
Where no cost base reset	$500,000
Difference in assessable capital gain	$55,556
Tax saving @ 15%	$8,333

SuperConcepts

Observation:

If the cost base of the asset is reset in 2016/17 and has been held for less than 12 months the 1/3rd discount does not apply.

When the asset is disposed of, the discount will apply and the fund will pay the same tax as if the cost base was not reset.

Super Concepts

Segregated pension assets

(Double Crossing the Rubicon)

Starting an income stream prior to 1 July 2017

SuperConcepts

Caesar who is 57 and works in the armed forces has $2 million in accumulation phase:

Investment	Value	Potential capital gain
Cash	$100,000	$Nil
Commercial property	$1,000,000	$600,000
Listed Shares	$650,000	$250,000
Gold bars	$100,000	Loss $60,000
Painting by Wet Brightly	$150,000	$80,000

What does Caesar do?

SuperConcepts

- Commences a TRIS or account based pension prior to 1 July 2017

How much should he use?

a) $2 million
b) $1.9 million
c) $1.8 million
d) None of the above

Investment	Value	Potential capital gain
Cash	$100,000	$Nil
Commercial property	$1,000,000	$600,000
Listed Shares	$650,000	$250,000
Gold bars	$100,000	Loss $60,000
Painting by Wet Brightly	$150,000	$80,000

What does Caesar do next?

SuperConcepts

- Draws income stream as TRIS or account based pension

- Needs to commute account based pension prior to 30 June 2016 so that the balance is no more than $1.6 million
  - He can commute more to get the balance below $1.6 million (see example 1.47 in EM)

Are there any issues here?

- No need to commute TRIS as it will return to accumulation phase on 1 July 2017 and new cost base will be set then

Super Concepts

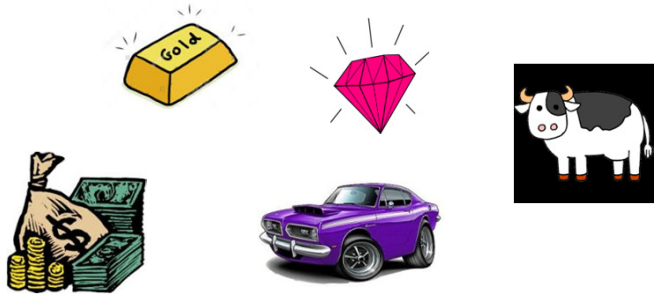
Holding assets in the fund?

Importance of investments to be owned by the SMSF

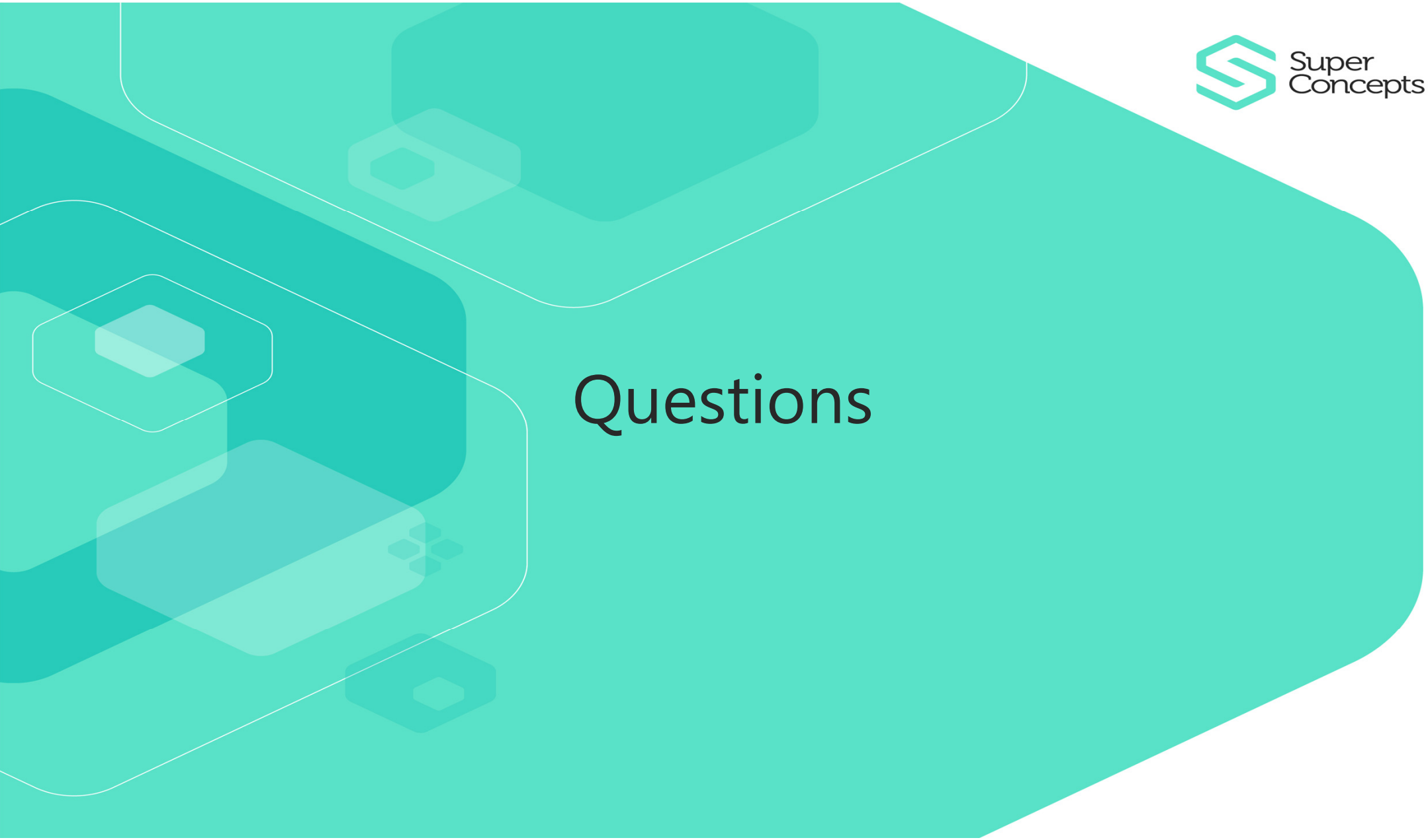
SuperConcepts

Should the investment be:

- owned by the fund?
- in accumulation phase?
- in retirement phase?



Publicly listed shares	Commercial property
Gold bars	Residential property
Muscle cars	Furniture and fittings
Cash	Agricultural investments
Fixed deposits	Pink diamonds



Questions