Simplifying Statements of Advice

FPA Example SOA

24 June 2008

Example SOA – Consultation Process

Financial planners, politicians, and regulators alike share the common goals of ensuring that disclosure documents are understandable, useful, practical and cost effective for consumers. However, most would agree that many Statements of Advice (SOAs) are lengthy, challenging for consumers to understand, and costly for financial planners to produce.

To begin the process of addressing this problem, the Financial Planning Association (FPA) initiated a Working Group of financial planning practitioners, who were tasked with the aim of identifying and simplifying key requirements that should be included in Statements of Advice.

The FPA launched a discussion paper on Simplifying Statements of Advice at its National Conference in November 2007. The consultation elicited a significant response. Feedback on the project has been overwhelmingly positive, particularly with regard to how the example provided a complex scenario in a concise and comprehensible manner. A number of detailed comments and suggestions were made and the example Statements of Advice was revised on the basis of these comments. The FPA liaised with the Australian Securities and Investment Commission regularly during the development process to arrive at this final version.

The SOA was rigorously consumer tested and the FPA used the results of this research to refine the example Statement of Advice. The qualitative research was based on a sample of retirees and pre-retirees with recent experience of advice. The testing indicated that consumers have a strong preference for shorter documents that can be more easily digested.

As with the consultation paper, this Statement of Advice does not include information considered unnecessary to client understanding of the advice. It is focused on the key sections that help clients make informed decisions about the advice given. The example Statement of Advice utilises referencing to remove the need to include education material, unnecessary product information, background research and other information, leaving the advice and costs as the focus of the document. This approach promotes the role of the Financial Services Guide (FSG) and Product Disclosure Statement (PDS) as valuable sources of information for more detailed information.

FPA **EXAMPLE SOA**

John and Joan Randall

STATEMENT OF ADVICE
TRANSITION TO RETIREMENT STRATEGY
AND CONSOLIDATION OF SUPERANNUATION

Date: 24 June 2008

What to do after reading this Statement of Advice (SOA)

If you have any questions, don't hesitate to contact me.

It's very important that you take full ownership of your financial decisions. I can assist you to make the appropriate decisions, but those decisions remain yours. If you don't feel totally comfortable with what's in this SOA, you should seek more information and advice from me.

If, however, you are completely satisfied with all the information and have no further questions, simply sign the '*Authority to Proceed*' form and other documents marked with a tag '*Sign Here*'.

John Planner is an authorised representative (no. 11111) of ABC Financial Planning Pty Ltd an Australian Financial Services Licensee (No. 789123), of 75 Castlereagh Street, Sydney NSW 2000
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FPA
FINANCIAL PLANNING ASSOCIATION OF AUSTRALIA
PRINCIPAL MEMBER

The scope of this advice

This advice covers strategies designed to help both of you make the most effective use of John's superannuation up to retirement. Any other areas covered within this SOA, such as advice about Joan's managed fund, relate directly to this goal. No consideration has been taken of Joan's superannuation fund, as you have indicated you are content with that fund.

Where you are now

Here are your relevant personal details that you provided to me at our meetings, and which I took into consideration when developing your strategy:

- You are a married couple, both aged 57, with one teenage dependant (for another two years).
- John is the sole income earner for the family.
- John proposes to retire in 8 years' time.
- You reside in a home which you intend to maintain as your residence for the foreseeable future.
- You both have current wills in place as well as enduring power of attorney documents.
- You have private health cover in place.

The table below summarises your current financial position:

	John	Joan
Gross salary per annum (excluding compulsory super)	$125,000	$Nil
Investment income per annum	$Nil	$9,800 approx (automatically reinvested)
Estimated annual tax	$38,975	$Nil
Current top tax rate paid	41.5%	0%
Investment assets	$Nil	$164,350 (managed fund)
Superannuation assets	$465,000 (Employer super fund) $97,700 (four funds – A, B, C & D)	$12,000
Insurance as part of a superannuation policy	$435,000 (Employer super fund) $30,000 (fund D)	$Nil
Property value	$450,000 (shared jointly)	
Net personal financial assets (approx)	$739,050	
Cash requirements	Lifestyle expenses Mortgage expenses Regular investment	$57,000 per annum $15,600 per annum ($30,000 balance) $5,200 PA to super after tax (John) $3,000 PA invested in managed funds (in Joan's name).

What you want to achieve

Here is what I understand to be your primary objectives:

Objective	Detail	When
Maintain current lifestyle	Target $57,000 per annum to maintain current lifestyle	Now
Reduce tax	Minimise tax paid on any income earned	Now
Lessen administration to look after super	Consolidate superannuation accounts to reduce the amount of paperwork, and to have an easily managed portfolio which provides flexibility and control	Now
Increase savings for retirement	Target a retirement income of $70,000 per annum in today's dollars	8 years
Maintain access to advice	Adapt to changing conditions through ongoing relationship with your financial planner	On-going

How you get there and why

Here is a summary of what I recommend to you:

Step 1: Consolidate John's super
Step 2: Maintain John's Employer Super fund
Step 3: Salary sacrifice
Step 4: Create a Transition to Retirement Pension for John
Step 5: Make some changes to Joan's assets
Step 6: Pay for advice received from your Employer Super fund

Step 1: Consolidate John's Super	
How	**Reasons**
Consolidate your existing super funds by rolling over the money in the four small super funds (A,B,C and D) into your Employer Super fund	• The amount moved from the four super funds to the Employer Super fund will total $97,675. • This allows for additional funds to be made available for transfer to a Transition to Retirement (TTR) Pension, which in turn will help you realise larger tax savings (see below for more details about this strategy). • This will reduce the paperwork of having five super funds. • You should note that in disposing of the D Super fund, ancillary benefits (such as cheaper travel, health insurance, banking and financial planning services) will be lost. There is also an exit cost of $25. • Also note that in exiting D Super fund you will lose $30,000 of life cover.

Step 2: Maintain John's Employer Super Fund	
How	**Reasons**
Maintain your Employer Super fund	• By maintaining your Employer Super fund, contributions to superannuation can continue uninterrupted. • As the product is already established, there are no entry fees into the employer super fund or product set up costs. There are ongoing fees to maintain the fund, but these fees are reasonable compared to other options. • Life insurance of $435,000 is retained without the need to find replacement cover. • You are happy with the fund's performance to date. • You and your employer are familiar with the fund's administration. • Note, as below, that $550,000 will be withdrawn from this fund to set up the Transition to Retirement (TTR) Pension. • Employer Super fund contributions cannot be made into the fund in which the pension will be established. • After withdrawal you'll be left with an approximate balance of $12,675 in the Employer Super fund, from which fees for adviser services can be paid.

Step 3: Salary Sacrifice	
How	**Reasons**
Contribute $84,000 to the Employer Super fund each year from your pre-tax income (until July 2012)	• Salary sacrificing involves diverting part of your salary straight to your super savings before you pay income tax. • Salary sacrifice super contributions are taxed at 15% upon entering the super fund. As such, you are effectively replacing John's marginal tax rate of 41.5% (including Medicare) with a tax rate of 15%. The estimated tax savings are more than $16,000 per annum. • When combined with your compulsory employer contributions, the total deductible super contributions will be just under $100,000 for the year. • $100,000 is the maximum deductible super contribution allowable for a person aged 50 and over up to July 2012. After July 2012, the limit reduces to the standard cap which is currently $50,000. The strategy will need to be reviewed before that date.

Step 4: Create a Transition to Retirement (TTR) Pension for John	
How	**Reasons**
Withdraw $550,000 and create a TTR pension	• A TTR strategy allows you to take some of your superannuation as a pension while you are still working. Under the TTR strategy, some of your salary will be replaced by drawings from a pension (which will be created from your current super balance). This in turn allows you to salary sacrifice more to super and enjoy significant taxation advantages. • No tax is levied on investment earnings in the TTR Pension. Normally investment earnings in super are taxed at 15%. • The TTR pension fund will receive a refund for any imputation credits generated by exposure to Australian shares. • You will be able to nominate Joan as a beneficiary should anything happen to you. • As above, future employer superannuation contributions will continue to be made to your existing Employer Super fund.
Select and establish the new fund	• John's Employer Super fund does not provide TTR pensions, so you'll need to set up a new fund to establish the TTR Pension. • The Blue fund offers a broad range of investment options, some of which are unique to this fund and suitable for your objectives. (The Australian equity long/short option, for example, is not commonly available in other funds but has been utilised in your investment strategy). • The Blue fund offers a user-friendly and cost effective administrative service. • Within the Blue fund, there is a higher allocation to growth assets than is currently the case in your super funds. This will allow you to more effectively take advantage of market opportunities and your investment time horizon. • Increasing your exposure to growth assets is made more attractive by the fact that all investment income earned in the Blue fund will be tax-free. • However, it should be noted that forecast fees for the Blue fund are higher than both the Employer Super fund and the existing D Super fund.
Establish appropriate portfolio strategy to meet your objectives	• We have discussed the risks associated with various investment assets and your tolerance to market fluctuations. My recommendations take these discussions into account. It's my understanding you are willing to implement a less conservative strategy to meet your objectives. • This portfolio is diversified across all asset classes. Whilst there is an emphasis on growth assets (including Australian and international shares), I have allocated approximately 30% to cash and income funds to cover pension payments. • Through diversification of fund managers I have also sought to reduce the impact of volatility over the long term.
Draw $30,000 per annum to support your living expenses	• You have the flexibility to draw payments between 4% and 10% of the pension's asset value. The $30,000 is around 5.5% of the fund's value (so there is scope to increase this amount if required in future years). • Any excess earnings will be reinvested in the fund. • Approximately $9,600 of the pension payment will be tax free (saving over $3,500 in tax at your marginal rate). The remainder will be subject to a 15% tax rate. • You have the option to choose whether the pension payments are paid to you fortnightly, monthly or quarterly. • At age 60, the pension payments will be 100% tax free.

Breakdown of investment in the Transition to Retirement Pension

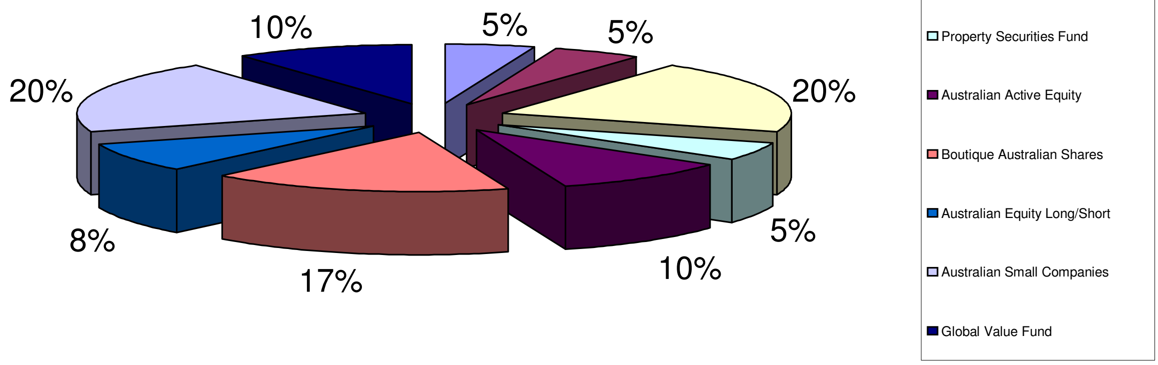
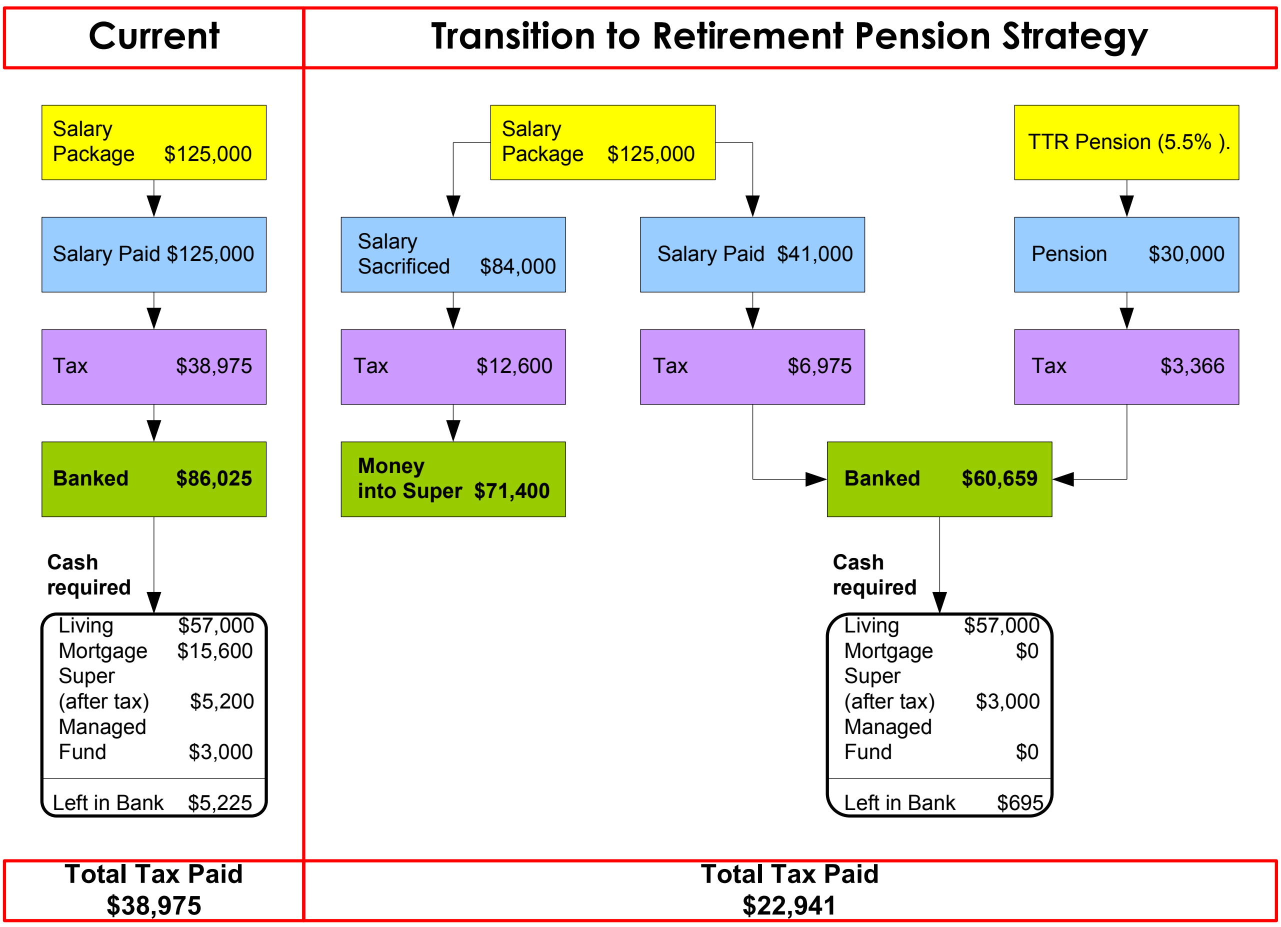


Illustration of the impact of the strategy on your tax and cash flow

The table below illustrates how the salary sacrifice will be funded, as well as how your lifestyle needs will be met by using a combination of the Transition to Retirement Pension payments and the remainder of your salary. Note that under either strategy compulsory employer contributions of 9% of salary will also be made.



Step 5: Make some changes to Joan's assets	
How	**Reasons**
Withdraw $30,000 from Joan's managed fund portfolio to pay out your mortgage	• There will be a saving in interest payments to your home lender, and you'll be free of mortgage debt. • This strategy will create greater certainty in your day-to-day cashflow, which will ultimately allow you to maximise your superannuation contributions. • Interest on the mortgage is currently paid from after tax income (and if the $30,000 was invested in the managed fund, earnings would be subject to tax). • $134,350 is retained in the managed fund portfolio that is easily accessible.
Cease regular annual investments in the managed fund portfolio	• This frees up more capital to invest in superannuation (with its associated tax benefits) or to spend on lifestyle needs. • It keeps Joan's taxable income down to allow for a spouse super contribution strategy. • Distributions can continue to be reinvested.
Contribute $3,000 annually to Joan's super fund and claim the spouse tax offset	• A contribution of at least $3,000 allows John to claim the spouse tax offset of up to $540. (John will be eligible for this offset providing Joan's income remains less than $13,800 per annum).
Keep all cash in Joan's name	• Any interest income earned on cash holdings will be taxed at Joan's marginal tax rate. (Joan's rate will be between 0% and 15% depending on investment income earned).

Step 6: Pay for advice received from your Employer Super fund	
How	**Reasons**
Pay advice fees from the Employer Super fund	• As a result of tax credits, the actual amount paid out of the fund will be $8,277 (rather than $10,450). • This leaves a balance in the fund of around $4,398 which is sufficient to maintain the account until the next contribution is made. • This is your preferred method of paying for advice.

In summary, here's how this strategy fulfils your objectives		
Objective	**How the strategy fulfils the objective**	**When**
You maintain your current lifestyle	You meet your current lifestyle cashflow needs of $57,000 and contribute $3,000 annually to Joan's super, realising the associated tax benefits	Now
You reduce your overall tax bill	In addition to the salary sacrifice tax saving of $16,034 and the spouse contribution rebate of $540, there are potential TTR pension franking credit rebates which could reach $5000	Now
You reduce your paperwork	There are now just two funds – John's Employer Super fund and the Blue fund allocated pension – rather than five separate super funds	Now
You increase your overall savings for retirement	Your target income in retirement is $70,000. Assuming investment returns of 7% (super) and 8% (pension) net of taxes and fees, plus 3% inflation and wages growth, we have projected that John's super/pension portfolio alone would support a retirement income of approximately $63,000 annually. This includes the reduced maximum super contribution from 2012. This figure would then be supplemented by other income sources not covered in this advice, particularly investment income from the managed funds and Joan's super	8 Years
You continue to have access to advice	The advice costs (both initial and ongoing) are paid directly from your super/pension accounts. Ongoing advice is facilitated through this payment mechanism	Ongoing

Risks and disadvantages

1. The risks

Everything we do in life has some level of risk attached to it. With investment, there's the risk that returns won't meet expectations or that we might incur short-term losses. If we want to reduce this investment risk, the trade-off is usually reduced returns.

Some level of risk has to be accepted if you're to meet your objectives. We have discussed these and agree that the strategy recommended is appropriate for your needs. Here are the key risks of the strategy:

(a) **Market fluctuations**. Each of the recommended investments, except cash, is subject to market fluctuations. Whilst designed to provide greater diversification and higher long term returns, investments in "Australian shares, listed property securities" and "international shares" can be more volatile than other investments. Values are likely to move up and down when valued on a regular basis.

(b) **Rule changes**. Rules governing TTR pensions and super could change. However, it's my experience that there are usually transition provisions, allowing those already using a particular strategy to adapt that strategy to legislative rule changes.

(c) **Funds out of the market.** During any rollover periods, your funds will be "out of the market". If the market rises during that period, you will not have the same purchasing power. If the market falls however, then you will be able to purchase more for your money.

I recommend you read the enclosed Financial Planning Association booklet, *"The Trade-Off - Understanding Investment Risk"*. Additional information is also available in the Product Disclosure Statement accompanying this Statement of Advice.

2. The disadvantages

Salary sacrificing

- You will not be able to access the additional salary sacrificed payments to John's Employer Super fund prior to his retirement. This is the case for all payments to super, which can only be accessed early in very limited circumstances such as extreme hardship or medical emergency.
- This is also the case for the Blue Fund allocated pension, other than the pension payments which can range between 4% and 10% of the value of the fund.
- Salary sacrificing may adversely affect your long service and annual leave entitlements. You should consult your employer before proceeding and consider whether the benefits of this strategy outweigh any potential losses of entitlements.

Costs

- As noted above, forecast fees for the new Blue Fund are higher than both the Employer Super fund and the existing D super.
- There will be buy/sell spread costs incurred upon transition between investments. These costs will be deducted from the price of the unit.
- Fees to cover the initial advice and implementation have been charged on the consolidation under the Employer Super fund. This will reduce the amount being invested under the TTR pension.

Tax

- Capital gains tax may apply to the sale of $30,000 from the managed fund portfolio. From information supplied, the estimated capital gain is $4,000. This will be reduced by the 50% discount and as a result $2,000 will be added to Joan's income. Assuming a tax rate of 15% there may be a tax of $300 to pay. This should be discussed with your accountant/tax adviser for verification.

Other

- The capital gain may exclude John from claiming the spouse super rebate in the first year, depending on the amount of income received from the managed fund portfolio.
- The reduction in the size of the managed fund portfolio will reduce the size of the capital, and therefore the annual investment income. This will be offset by the savings in servicing the mortgage.
- John may not have access to cash at hand if this is all held in Joan's name.

What this advice will cost you and how we are paid

Advice costs

In providing our services and advice to you, we will be paid as follows:

- Financial planning advice fees charged by us to you. These are set out in the first row of the table below and are $10,450 before tax credits. A fee reduction of $2,173 is available because the fund is able to claim a tax credit from the Australian Taxation Office. This credit is paid to us and results in a reduced fee, which means that you need to pay a net fee of only $8,277.
- Commissions paid by product providers to us from their management fees. This is calculated as a percentage of the balance of your investment and is set out in the second row of the table. The amount paid to us on the basis of your current balance is $3,300. These payments are intended to cover the cost of ongoing advice.

Should you wish to proceed with the proposed strategy and advice, the costs we have agreed for the advice are:

When	Description	How Paid	Amount (includes GST as applicable)
Initial	Initial financial planning fee for the work involved in the research, preparation and implementation of the strategies.	From Employer Super fund balance. Tax credits used to reduce the amount required to pay the fee.	Fee $ 10,450 Tax credit $ 2,173 **NET FEE PAYABLE $ 8,277**
Ongoing (annual)	Commission. Further information is available in our Financial Services Guide (page 8).	Paid by product provider from their management fees.	The annual payment is 0.60% of the fund balance. This amount is based on a balance of $550,000. The actual amount received will vary as noted below. **PAID FROM PRODUCT $ 3,300**

Notes

- As Licensee, ABC Financial Planning ("ABC") receives the payments, retains 2%, and pays the remainder to us as the financial planner. This equates to $209 of the initial fee and $66 of the ongoing commission.
- Ongoing fees listed above are paid from the investment return of the fund before crediting to TTR Pension account. They are calculated throughout the year and, as they are charged as a percentage, the amount of the fee depends on your investment balance at the time. Therefore the figures should be used only as a guide and may not exactly equate to the charges that will be made.

Benefits, interests and associations

ABC Financial Planning may receive sponsorship payments from the Blue fund. Annual sponsorship per product provider is typically between $10,000 and $20,000. This is not a direct cost to you.

Your financial planner does not receive any of these payments. ABC Financial Planning may use these payments to pay for the cost of conferences, training or professional development for your financial planner. In return, the product provider receives a range of benefits including being recognised as a sponsor, attendance at conferences and the right to give presentations to your financial planner.

ABC Financial Planning may also receive additional ongoing remuneration from the Blue fund for recommending their products. This amounts to 0.2% of the funds invested ($1,115) in the first year and is paid out of the management fees charged by the Blue fund. This is not a direct additional cost to you.

For further information regarding benefits, interests and associations please refer to the Financial Services Guide previously provided to you.

Additional information to assist your decision making

Product annual fees

The ongoing costs of maintaining the product are set out below. The management fees are calculated as a percentage of the balance in each investment option. Other fees related to the product, such as switching fees or member fees, may apply to your investments. These are paid to the product provider. Please refer to the relevant Product Disclosure Statement for specific details on fees regarding each product recommended to you.

Percentage of portfolio	Investment Sector	Investment options	Amount	Management fee (%)	Cost PA $
5%	Cash	Cash	$27,500	1.13%	$310.75
5%	Income	Income Extra	$27,500	1.77%	$486.75
20%	Income	Income Fund	$110,000	1.92%	$2,112.00
5%	Listed Property Securities	Property Securities Fund	$27,500	1.66%	$456.50
10%	Australian Shares	Australian Active Equity	$55,000	1.86%	$1,023.00
17%	Australian Shares	Boutique Australian Shares	$93,500	1.96%	$1,832.60
8%	Australian Shares	Australian Equity Long/Short	$44,000	2.24%	$985.60
20%	Australian Shares	Australian Small Companies	$110,000	1.91%	$2,101.00
10%	International Shares	Global Value Fund	$55,000	2.01%	$1,105.50
100%			$550,000	1.89%	$10,413.70

Notes

- Details about all fees and costs associated with this financial service from the Blue fund are contained at pages 13 and 14 of the Product Disclosure Statement under ‘Management & Transaction Costs’ and ‘Performance Fees’.

Additional resources

Title	Description
Product Disclosure Statement (PDS)	PDS containing technical particulars about the recommended product, including product features and costs that apply.
Financial Services Guide (FSG)	The FSG that has already been provided to you provides information on a range of issues including the services we offer, how we operate, how we get paid, and any interests, associations or relationships that could influence them.
Working materials	A copy of the spreadsheet workbook used to determine the financial figures and strategy contained within this SOA can be made available to you upon request.
Research materials	Research materials relevant to product selection. This material is independently appraised by a credible research house engaged by the Licensee. You should read this information so that you gain a better understanding of what you are investing in.
Educational materials	As above, we recommend that you read the Financial Planning Association booklet, *"The Trade Off - Understanding Investment Risk".*
Ongoing service brochure	The brochure that has already been provided to you details the ongoing service you can expect from us in the upcoming years.

Services being provided to you and next steps

This advice is relevant for the period up to retirement but does not consider your needs and objectives in retirement. You will need to review your financial affairs in the lead up to retirement. Of particular importance is the fact that, as stated above, on 1 July 2012, the limit for allowable deductible contributions changes from $100,000 per annum to $50,000. At this time the strategy will need to be reviewed.

Financial planning is a dynamic process and your financial development needs to be regularly monitored for changes in your circumstances, as well as economic conditions, government legislation and a range of issues that may impact on your financial wellbeing. Should you receive a pay rise, or have any other change in your employment circumstances, you should notify me immediately so that your strategy can be reviewed to ensure it remains in step with your objectives.

If you wish to proceed with the recommendations outlined in the SOA you should sign the authority to proceed and return it to us.