

# Merit Wealth

Professional Development



August - September 2016



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Merit Wealth Pty Ltd, Level 2, 115 Pitt St, Sydney 2000

# Merit Wealth PD August - September 2016

Limited Authorised  
Representatives




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# Introduction and Welcome

Garth McNally  
Director




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## Agenda Topics

<b>Introduction and Welcome</b>	<b>Garth McNally</b> Director, Merit Wealth
<b>Compliance &amp; Legal Framework</b> Technical & regulatory update	<b>Garth McNally</b> Director, Merit Wealth
<b>SMSF Advice Processes</b> Advice considerations: Existing clients vs. new clients	<b>Scot Andrews</b> Head of Advice, Merit Wealth
<b>SMSF Advice Processes</b> Processing efficiencies: Preparing & presenting advice efficiently	<b>David Moss</b> Accountants Services Director, Merit Wealth
<b>Adviser Forum</b> Q&A style discussion	




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# Technical & Regulatory Update

Garth McNally  
Director



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## What we will cover

### Topics

Contribution considerations

Pension commencement advice

Pension refresh and other advice issues

Death benefit nominations vs. Reversionary pensions



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## Contribution Considerations



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## Concessional Contribution Caps 2017

Age	Concessional Contributions Cap
Under 49 on 30 June 2016	\$30,000
49 or older on 30 June 2016	\$35,000



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## Concessional Contributions Caps

- Review clients who now have access to the higher \$35,000 cap: are they now 49?
  - Self employed clients: Contribute by 30 June
  - Salaried employee clients: **Make sure an effective salary sacrifice arrangement is in place NOW!**  
**If giving this advice to clients, do it now!**

**Reminder the cap may reduce to \$25K for all in FY 2018**



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## Pension Commencement Advice



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## Pension Commencement

### TR 2013/5

“The commencement day cannot occur prior to.. the day established as the commencement day in the terms and conditions agreed between the member and the trustee that will govern the superannuation income stream”

**If recommending pension commencement for 2017, the time to give that advice is now if you have not already!**



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## Transition to Retirement Pensions

- **Budget proposal to remove tax free earnings on transition to retirement pension assets from 1 July 2017**

– Make the most of the earnings exemption for 2017 FY. Review clients who may now be eligible to commence a TTR

**Again, the time to give this advice is now!**



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## Transition to Retirement Pensions

- **Budget proposal to remove tax free earnings on transition to retirement pension assets from 1 July 2017**

– Review clients who have full access to benefits; where they hold unrestricted non-preserved benefits  
– Consider changing these pensions from TTR to standard account based pensions or separating these preservation components

**This may be more applicable later in the FY**



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## Realise Capital Gains in the 2017 FY

- **Budget proposal to limit pension purchase price to \$1.6M from 1 July 2017**
  - May require clients to move assets back to accumulation phase
  - Where clients are considering selling assets in the short term, consider realising assets in the 2017 FY for 100% tax exemption on earnings (including CGT)

**Keep in mind ATO comments on Part IVA when commencing pensions just prior to asset sale**



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## Pension Refresh and Other Advice Issues



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## Pension Refresh

- In the past, often considered at year end (or in following year) as part of SMSF admin function  
**BUT keep in mind earlier comments about pension commencement dates**
  - **Change your approach now that you are licensed**
- Also consider earlier comments on separate pensions for different preservation components



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## Pension Refresh

- Are existing pensions pre 1 January 2015 income streams?
  - Keep in mind changes to Centrelink deeming rules that came into effect
  - Should they be kept separate?  
**You can utilise a Merit Wealth full AR for assistance with this advice!**
- What effect will the refresh have for these clients?



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## Summary

1. The Merit Wealth team are available to help with not only compliance requirements **BUT to help with client strategy and technical advice.**
2. The broader Merit Wealth adviser network **can also assist with your clients advice needs that fall outside your authorisation.**
3. Although we want to assist in the ability for you to continue doing what you have been doing for clients, some changes to process are required



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## Advice Considerations: Existing Clients VS New Clients

Scot Andrews  
Head of Advice



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## Advice Considerations

1. Advice to SMSF Clients
2. Product class advice on other super



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## Existing vs New

- Existing = clients you have previously advised under the old accountants exemption
- New = clients that have never received SMSF advice from you



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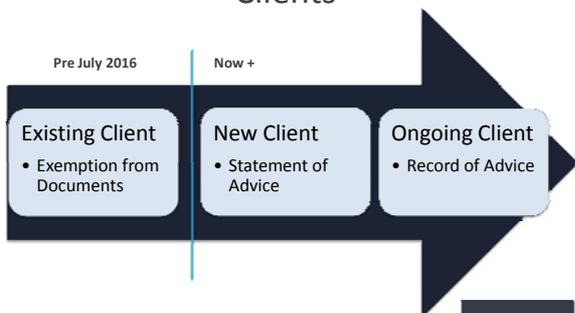
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## Clients



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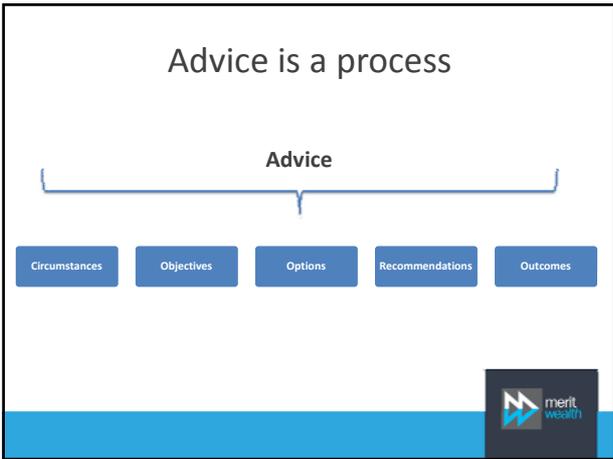
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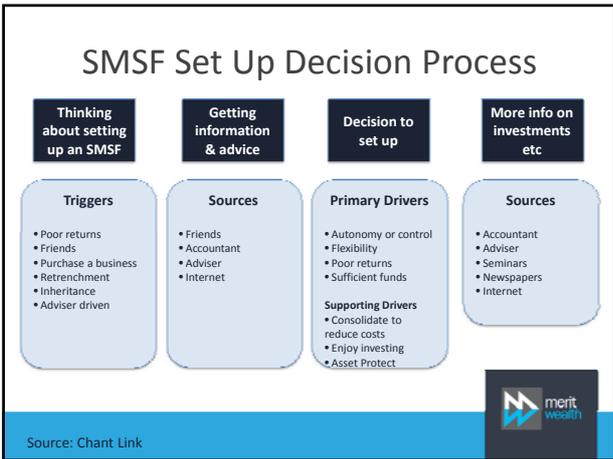
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- ### ASIC – SMSF Problems?
- Inappropriate investment strategy (cash, property)
  - Level of gearing too high (LRBA)
  - Low financial literacy
  - Low starting balance (<\$150 - \$200k)
  - Inappropriate insurance advice
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## Suitability of SMSF

- Fund balance enough to justify set up costs?
- Affordability of annual costs?
- Time to run and manage the fund?
- Financial literacy skills required?
- Continued suitability
  - All of the above still relevant?
  - Pensions paid and balance reduced over time?



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## Suitability of SMSF – Red Flags

- Low balance and limited ability to contribute?
- Client wants a simple low touch super option?
- Wants to delegate decision making?
- Little time to devote to financial matters?
- Little investment making experience?
- Low financial literacy?



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## SMSF Low Balance - Explanations

- Ability to transfer more money
- Ability to contribute more
- Self involvement in administration
- Low cost investment strategy
- Cost of their APRA fund was higher



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## Explain SMSF Risks

### Need to explain risks of:

- No access to statutory compensation
- Reduced access to dispute resolution
- Individual trustee structure
- When relationships breakdown
- Inappropriate insurance cover
- No succession plan (older client)



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## Explain SMSF Set Up Costs

### Need to explain costs of:

- The annual SMSF supervisory levy (ATO)
- Annual financial statement and tax return
- Annual independent audit fees
- Costs for a trust deed
- The fee for annual actuarial certification (when required).



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## SMSF Ongoing Costs

### Need to explain ongoing costs of:

- Annual corporate trustee fee
- Including the cost of amending the trust deed
- Professional investment advice fees
- Accounting and book-keeping fees
- Investment management fees
- Compliance costs, transaction costs



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## SMSF Ongoing Advice

### Assets

- Liquid assets on hand to contribute?

### Liabilities

- Current & future debt obligations?

### Income

- Stability? Sufficient cash flow?

### Expenses

- Future short & medium term expenses?



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## Reminder – Best Interest

- Identify the objectives, financial situation and needs of the client that were identified through instructions
- Identify the subject matter of the advice sought by the client (whether explicitly or implicitly)
- Identify the relevant objectives, financial situation and needs of the client
- Make reasonable enquiries to obtain complete and accurate information



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## Reminder – Best Interest

- Make reasonable enquiries to obtain complete and accurate information
- Assess whether you have the expertise to provide the advice sought and, if not, decline to give the advice
- Conduct a reasonable investigation into the financial products that might achieve the client objectives
- Base all judgements on the client's relevant circumstances
- Any other steps.



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## SMSF Ongoing Advice

### Contributions

- Advice is to the member about contributions
  - Eligibility to contribute
  - Caps & contribution history
  - Type of contribution
- Best Interest
  - Alternative Options (non SMSF)



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## SMSF – LRBA Considerations

- LRBA's are only being invested in by SMSF trustees after understanding the nature of the investment strategy and the risks associated with it.
  - LRBA establishment processes and transaction costs.
  - On-going LRBA costs
  - Permitted use of LRBA's under the SIS law



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## SMSF – LRBA Considerations

- Alternative strategies to acquire asset?
- Fits in with the SMSF's investment strategy?
- Is a borrowing strategy appropriate?
- Appropriate diversification/overweighting
- Investment time frames
- Fund cash flow
- On-going costs



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## SMSF - LRBA

Affordability Analysis	Interest rate at 5.80%	Interest rate at 7.80%
Employer Super Contributions	70,000	70,000
Rental Income	72,480	72,480
<b>Total Income</b>	<b>142,480</b>	<b>142,480</b>
Less		
SMSF Accounting & Auditing Fees	(6,600)	(6,600)
Repayments (principal and interest)	(54,816)	(62,124)
Insurance Premium	(3,000)	(3,000)
<b>Total Expenses</b>	<b>(64,416)</b>	<b>(71,724)</b>
<b>Gross Cash Flow</b>	<b>78,064</b>	<b>70,756</b>
Taxation	(11,710)	(10,613)
<b>Net Cash Flow after tax</b>	<b>\$66,354</b>	<b>\$60,143</b>




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## SoA Checklist

1. A statement setting out the advice;
2. Data on which the advice is based (normally a "fact finder" or similar document);
3. Name and contact details of the financial planner and the AFSL holder; the financial planner's authorised representative number; the AFSL number;
4. Information about remuneration including commission;




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## SoA Checklist

1. Information about any other benefits that may influence the advice;
2. Information about any associations that may influence the advice;
3. Any other charges, costs or lost benefits connected to the advice, particularly the disposal or acquisition of a financial product; and
4. Any other statements or information required by the regulations.




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## Processing Efficiencies: Preparing & Presenting Advice Efficiently

David Moss  
Accountants Services  
Director



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### Why did you join a licence?

- To keep providing superannuation/SMSF advice, Corporations Act requires that you:
  1. Be authorised to provide advice by an Australian Financial Services Licence (AFSL)
  2. Act in the client's best interests
  3. Give client a Financial Services Guide (FSG) "as soon as practicable after" you recognise a financial service is likely to be provided (Corps Act list content required in FSG)



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### Why did you join a licence?

- To keep providing superannuation/SMSF advice, Corporations Act requires that you:
  4. Document financial advice in a Statement of Advice (SOA), give to client and ensure they understand the content (Corps Act list content required in a SOA)

\* If member of accounting body, also required to give client an engagement document



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## The Past / Today

1. Think over the client's personal and financial circumstances. Review files to confirm details
2. Consider what strategies may provide a tax/financial benefit for them since last 1 July/as of today onwards
3. Make notes on these strategies



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## The Past / Today + Efficiency

4. a) Make the client aware of these strategies by meeting, phone or email  
b) Make file notes, handwritten or Word doc  
c) Give staff member your file notes, including strategies selected + SOA fee you are charging  
d) Staff login to program and clicks 'Add New Client'  
e) Staff enters client name and contact details  
f) Staff selects desired strategies and 'Save Changes'



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## The Past / Today + Efficiency

4. g) Staff clicks 'Create an Engagement Letter'  
h) Staff enters fees and clicks 'Create and Send'  
i) Staff clicks 'Activities and File Notes'  
j) Staff clicks 'Add File Note'  
k) Staff clicks 'Choose File'  
l) Staff selects your scanned or word doc file notes and clicks 'Open'  
m) Staff clicks 'Save Changes'



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## The Past / Today + Efficiency

- 5. a) Obtain client agreement to implement strategies by signing engagement document
- b) Staff login to program and clicks 'Upload Acceptance'
- c) Staff clicks 'Choose File'
- d) Staff selects scanned signed engagement document and clicks 'Open'
- e) Staff clicks 'Save Document'



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## The Past / Today + Efficiency

- 6. Obtain extra client information and prepare SOA, with Authority to Proceed attached
- a) Staff prints copy of clients personal tax return
- b) Staff open excel Fact Find document and follow instructions to update for client
- c) You obtain details from client to complete excel Fact Find, by meeting, phone or email



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## The Past / Today + Efficiency

- 6. Obtain extra client information and prepare SOA, with Authority to Proceed attached
- d) Staff login to program and selects clients name
- e) Staff clicks 'Add More Details'
- f) Staff enters additional client information
- g) Staff clicks 'Save Changes'
- h) Staff clicks on 'Fact Find'



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## The Past / Today + Efficiency

- 6. Obtain extra client information and prepare SOA, with Authority to Proceed attached
  - i) Staff clicks 'Add Assets', enters details of each asset in Excel Fact Find and 'Save Changes'
  - j) Staff clicks 'Add Liabilities' and repeats the above process
  - k) Staff clicks 'Add Income', enters details of each income from tax returns and 'Save Changes'



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## The Past / Today + Efficiency

- 6. Obtain extra client information and prepare SOA, with Authority to Proceed attached
  - l) Staff clicks 'Add Expenses' and repeats the above process
  - m) You click 'Recommendations', enter details and 'Save Changes'
  - n) Go back to the 'Dashboard' and 'Create SOA'



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## The Past / Today + Efficiency

- 7. Provide SOA to client by meeting, email or post
  - a) Upon receiving SOA from program review, read SOA and confirm all information is correct
  - b) You provide SOA to client by meeting, email or post



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## The Past / Today + Efficiency

8. Ensure client understands SOA content by meeting or phone
  - Your advice is limited specifically to.....
  - If circumstances change, contact you
  - Personal details are correct?
  - Your recommendations
  - The benefits you are providing them
  - Things to consider + Alternative options
  - Issues not covered + Fees



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## The Past / Today + Efficiency

9. Obtain client agreement to implement strategies by signing authority to proceed
  - Upload scanned document into program
10. Implement and invoice



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## Additional Questions

[contactus@meritwealth.com.au](mailto:contactus@meritwealth.com.au)

Ph: 1300 785 611



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