CONSULTATION PAPER 164

Additional guidance on how to scale advice

July 2011

About this paper

This paper sets out ASIC's proposals to provide additional guidance on how to scale advice. We are seeking the views of advisers and other interested parties on our proposed guidance.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This paper was issued on 28 July 2011 and is based on the Corporations Act as at the date of issue.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

Contents

The consultation process

You are invited to comment on the proposals in this paper, which are only an indication of the approach we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information.

We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our policy on scaling advice. In particular, any information about compliance costs, impacts on competition and other impacts, costs and benefits will be taken into account if we prepare a Regulation Impact Statement: see Section F, 'Regulatory and financial impact', p. 27.

Making a submission

We will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any financial information) as confidential.

Comments should be sent by 8 September 2011 to:

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What will happen next?

Stage 1	28 July 2011	ASIC consultation paper released
Stage 2	8 September 2011	Comments due on the consultation paper
	September–October 2011	Drafting of new regulatory guide
Stage 3	November 2011	New regulatory guide released. Consultation on further guidance and examples of advice on non-superannuation topics, if needed.
Stage 4	2012	New regulatory guide updated for Future of Financial Advice reforms and with further guidance and examples of advice on non-superannuation topics, as needed.

A Background to the proposals

Key points

Persons who provide financial advice to retail clients must ensure that this is advice is suitable for the particular retail client: s945A.

We have previously issued guidance for Australian financial services (AFS) licensees and authorised representatives who provide advice to superannuation fund members about their existing interest in a superannuation fund (i.e. intra-fund advice). Among other things, this guidance explains how the suitability requirements in s945A are scalable.

We propose to release a new regulatory guide that builds on and expands this guidance.

Increasing access to advice

1 Many Australians would like more information and advice about investment issues. An ASIC report released in December 2010 found that one third of Australians 'are now expressing a preference for piece-by-piece advice rather than holistic or comprehensive advice'.

Note: See our report *Access to financial advice in Australia* (REP 224) at paragraphs 53 and 62. A copy of this report can be downloaded at www.asic.gov.au/reports.

2 The proposals in this consultation paper are aimed at increasing access to advice for Australians by facilitating the provision of piece-by-piece advice, where appropriate and practical.

Giving suitable advice: s945A

3 Section 945A of the *Corporations Act 2001* (Corporations Act) contains a 'suitability rule'. To give suitable advice, you must:

(a) know your client—determine the relevant personal circumstances in relation to giving the advice and make reasonable inquiries about those personal circumstances;

(b) know your product—having regard to information you obtain from the client about their personal circumstances, consider and conduct investigation of the subject matter of the advice as is reasonable in all of the circumstances; and

(c) ensure your advice is appropriate to the client—having regard to your consideration and investigation of the subject matter of the advice: s945A(1).

Current ASIC guidance and relief

4 In July 2009, we released Regulatory Guide 200 *Access to advice for super fund members* (RG 200). RG 200 gives guidance on the differences between factual information, general advice and personal advice, and how to scale advice to members of superannuation funds. RG 200 also includes examples of giving factual information, general advice and personal advice to fund members.

5 We have given superannuation trustees conditional relief from the requirements in s945A: see Class Order [CO 09/210] *Intra fund super advice*.

6 Other ASIC regulatory guidance also deals with the distinctions between factual information, general advice and personal advice and how to scale advice. This includes:

(a) Regulatory Guide 36 *Licensing: Financial product advice and dealing* (RG 36);

(b) Regulatory Guide 84 *Super switching advice: Questions and answers* (RG 84); and

(c) Regulatory Guide 175 *Licensing: Financial product advisers—Conduct and disclosure* (RG 175).

Note: We will review our existing guidance about providing advice under s945A in light of our new guidance and the Future of Financial Advice reforms, once finalised.

7 Currently, many AFS licensees are already providing scaled advice that complies with s945A.

Note: See R. Campo, ‘The intra-fund advice revolution’, *Journal of Financial Advice*, Volume 3 Issue 4 2010, p. 1.

Recent proposed reforms to the regulation of financial advice

8 On 25 February 2009, the Parliamentary Joint Committee on Corporations and Financial Services (PJC) resolved to inquire into and report on the issues surrounding the recent collapses of financial product and service providers, including Storm Financial and Opes Prime.

9 The PJC released its report in November 2009. The Australian Government responded to the PJC’s report by announcing the Future of Financial Advice reforms. The Future of Financial Advice reforms are a package of proposed reforms to the regulation of financial advice.

Note: See Parliamentary Joint Committee on Corporations and Financial Services (PJC), *Inquiry into financial products and services in Australia*, PJC, November 2009. For more information about the PJC’s recommendations and the Future of Financial Advice reforms, go to www.treasurer.gov.au.

10 We will review our guidance in light of the final Future of Financial Advice legislation.

New guidance for all AFS licensees who give advice

11 This consultation paper sets out additional guidance and examples that we propose to provide for *all AFS licensees* about how to scale advice.

12 The guidance will be published in a new regulatory guide that builds on and expands the guidance and examples in RG 200, including the examples of scaled advice. RG 200 will be withdrawn when the new regulatory guide is released.

13 This consultation paper sets out our proposals for:

(a) updated guidance for AFS licensees about how to give scaled advice in a way that complies with the existing legal obligations when giving advice (see Section B);

(b) new guidance and examples of providing factual information, general advice and personal advice on non-superannuation topics (see Section C);

(c) additional examples of how to give scaled advice on five new superannuation topics: intra-pension issues, transition to retirement, nomination of beneficiaries, superannuation and Centrelink payments, and single issue advice on retirement planning (see Section D); and

(d) revoking [CO 09/210] on intra-fund advice (see Section E).

14 As noted above, we are monitoring the Future of Financial Advice proposals and we will review our guidance in light of the final reforms.

B Updated guidance on how to scale advice for all AFS licensees who give advice

Key points

We propose to replace RG 200 with a new regulatory guide that builds on and expands the guidance in RG 200.

Our updated guidance will apply to all AFS licensees, including accountants, superannuation trustees and financial planners.

New regulatory guide about how to scale advice

Proposal

B1 We propose to replace RG 200 with a new regulatory guide that would:

(a) apply to all AFS licensees, including superannuation trustees, financial planners and accountants (see paragraph 15);

(b) build on the current guidance and examples in RG 200 (see paragraphs 16–18); and

(c) include additional guidance on some areas (see paragraphs 19–28).

The new regulatory guide would also include additional examples of how to scale advice: see Sections C and D of this consultation paper.

Your feedback

B1Q1 Will our proposed updated guidance help you to scale advice to your retail clients?

Our guidance applies to all AFS licensees

15 RG 200 applies to all AFS licensees. Our updated guidance will also apply to all AFS licensees, including accountants, superannuation trustees and financial planners.

Relevance of current guidance

Differences between factual information, general advice and personal advice

16 Our guidance in RG 200 on the differences between factual information, general advice and personal advice will be included in the new regulatory guide.

How AFS licensees can scale advice

17 Our guidance in RG 200 states the following:

(a) The requirement that personal advice must be suitable is scalable according to the nature of the advice. This means that you can limit your inquiries to the agreed subject matter of the advice.

(b) When the subject matter of the advice is relatively simple, less extensive inquiries are required to reflect the level of complexity, and the advice can be presented simply.

(c) The level of inquiry and analysis you are required to undertake to ensure your advice is suitable will vary from situation to situation and will depend on the advice you are giving.

(d) You need only obtain and analyse sufficient information to provide the advice requested or proffered.

18 This guidance and the examples in RG 200 will be included in the new regulatory guide.

Additional guidance for AFS licensees

19 Our updated guidance will build on the guidance in RG 200 in the following areas.

AFS licensees can scale advice

20 AFS licensees have a range of obligations, including obligations to have a reasonable basis for advice, and act honestly, efficiently and fairly. They may also have contractual obligations to retail clients.

21 These obligations are flexible enough to cater for both relatively simple and more complex advice situations. Simple, single-issue advice services, advice that covers some issues but is limited in scope and complex, and full financial planning services are all possible.

22 When giving personal advice to a retail client, you must undertake sufficient inquiries to ensure that you can give advice that is appropriate to the retail client's circumstances.

23 When a retail client's circumstances relevant to the scope of the advice are straightforward, the scale of your inquiries may be quite limited. As the complexity of a retail client's circumstances relevant to the scope of the advice increases, you will need to expand the scale of your inquiries.

24 When viewed in this way, all personal advice is scaled to some extent.

When appropriate AFS licensees can give advice on single issues

25 Either you or your retail client can suggest limiting the scope of your advice. Under your obligations, it is possible to limit the scope of advice to a single issue.

26 You should explain to a retail client the limited scope of the advice you are giving in a way that will be clear to the client. This will ensure that clients are not misled about the scope of the advice you give.

27 We propose to include some guidance in the new regulatory guide on scoping advice (e.g. what types of scoped advice arrangements are in accordance with good practice). We are monitoring developments with the Future of Financial Advice reforms, including the proposed duty on advisers to act in the client's best interest. Due to uncertainty about the final form of these reforms, we have not included commentary on the scoping issue in this consultation paper.

28 The following examples describe scenarios where advice has been scoped or limited in a way that complies with your obligations, and where it would be best practice to decline to give advice.

Example A: Advice on a single issue

A retail client sees an adviser because they want to accelerate their wealth creation. The adviser recommends an investment strategy. In doing so, the adviser discusses the risk of the client losing their income and assets. The adviser is not skilled in the area of risk insurance so notifies the client of this risk and refers them to see a specialist risk adviser.

Although a need for advice has been identified, the adviser has chosen not to provide advice on the area of risk insurance, but instead limit the scope of the advice and refer the retail client to someone else. The client agrees to seek the specialist risk advice and make a final decision about whether to implement the investment strategy after considering the specialist advice.

Example B: Declining to give advice

An adviser working for ABC Super Ltd is dealing with a retail client who is a member of the superannuation fund operated by XYZ Super Ltd. The client asks for advice about whether to switch to the superannuation fund operated by ABC Super Ltd. The client says they want to pay lower fees and generate better returns.

The adviser points out that it is also important to compare the insurance provided by each fund but that the adviser is not able to provide that advice and the retail client should seek their own advice on this aspect. The client says they are not going to bother seeking advice from someone else about insurance.

In this situation, it is good practice for the adviser to decline to give the advice.

Other obligations of AFS licensees

29 Our proposed updated guidance should be read in conjunction with our other guidance on how to comply with obligations under Ch 7 of the Corporations Act. It does not replace other guidance. If you are considering providing factual information and advice to a member, you may also need to consider:

(a) common law obligations such as the duty of care;

(b) contractual obligations;

(c) compliance with relevant industry standards;

(d) regulatory requirements under the Corporations Act, including those in Ch 7 about licensing, disclosure obligations and the requirements to:

(i) provide services efficiently, honestly and fairly;

(ii) ensure adequate representative training;

(iii) manage conflicts of interest; and

(iv) maintain dispute resolution systems;

(e) regulatory requirements under Div 2 of Pt 7.10 of the Corporations Act and the *Australian Securities and Investments Commission Act 2001*, which prohibit misleading or deceptive conduct; and

(f) trustee duties and obligations under the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and at common law.

Accountants

30 Accountants sometimes have different obligations than other AFS licensees due to a number of exemptions in the Corporations Act. Examples of these exemptions include:

(a) advising on the acquisition or disposal, administration, due diligence, establishment, structuring or valuation of an incorporated or unincorporated entity, if any advice that would otherwise be financial product advice is:

(i) given to a person who is, or is likely to become, an associate, manager, officer or trustee of the entity; and

(ii) confined to a decision about securities of a body corporate, or related body corporate, or interests in an unregulated trust, which carries on or may carry on the business of the entity in the capacity of trustee; and

(iii) does not relate to other financial products that the body corporate or the trustee of the trust may acquire or dispose of (reg 7.1.29(3)(c));

(b) advising on securities in a company or interests in a trust (other than those requiring disclosure under the Corporations Act), if the company or trust is not carrying on a business and has not, at any time, carried on a business (reg 7.1.29(3)(d));

(c) advice given by a registered tax agent that is given in the ordinary course of activities as an agent and that is reasonably regarded as a necessary part of those activities will not constitute financial product advice (s766B(5)(c));

(d) providing financial product advice in the course of conducting a service that involves advice in relation to taxation issues, including advice in relation to the taxation implications of financial products (tax service), where it is reasonably necessary to provide the advice in order to conduct the tax service and the advice is provided as an integral part of the service and certain other requirements are met (reg 7.1.29(4)); and

(e) advice that consists only of a recommendation or statement of opinion provided to a person about the allocation of the person’s funds that are available for investment among shares, debentures, deposit products, managed investment products, investment life insurance products, superannuation products, and other types of assets, other than specific financial products or classes of financial products (reg 7.1.33A).

Note: For other exemptions that apply to accountants, see regs 7.1.29(3)(e), 7.1.29(h)(f), 7.1.32, 7.1.33 and 7.1.33G.

31 We are aware that changes are proposed to the way that accountants are regulated under the Corporations Act, and we are monitoring these proposals.

Future of Financial Advice reforms

32 As mentioned earlier, the Australian Government is currently in the process of introducing the Future of Financial Advice reforms. We will review our updated guidance after these reforms are in place.

C New guidance and examples of scaled advice on non-superannuation topics

Key points

We propose to provide examples of scaled advice on the following non-superannuation topics:

- a general insurer providing advice to an existing retail client about what level of excess to have on to their motor vehicle insurance policy;
- a stockbroker advising an existing retail client about purchasing shares; and
- an accountant giving information and advice to a retail client about how to invest an inheritance.

In addition to these detailed examples, we also suggest some other possible examples which could be included in the future.

Giving advice on non-superannuation topics

33 In RG 200.5, we state that the concepts in that regulatory guide may be relevant to providing factual information and advice about products other than superannuation.

34 Our proposed updated guidance in Section B of this consultation paper will also apply to all financial products.

35 In addition, we propose to include new guidance and examples of factual information, general advice and personal advice for investment strategies and financial products other than superannuation: see Examples 1–3 in the appendix to this consultation paper. We welcome suggestions for other topics arising out of this consultation process.

Basic deposit products and insurance

Proposal

C1 We propose to include an example in the new regulatory guide on providing factual information and advice about motor vehicle insurance to an existing retail client: see Example 1 in the appendix to this consultation paper.

Your feedback

C1Q1 Do you think that you can scale advice in the way set out in Example 1? Why or why not?

C1Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

C1Q3 If yes, do you have any comments on the example we propose?

C1Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?

C1Q5 Will this example increase access to advice for your retail clients?

C2 Depending on the feedback we receive, we propose to include further specific examples in the new regulatory guide of factual information and advice, including for a deposit account, home and contents insurance, optional cover within an insurance policy and insurance policy exclusions: see paragraph 40.

Your feedback

C2Q1 Would it be useful for ASIC to provide further examples along the lines of those set out in paragraph 40?

C2Q2 Can you suggest any other examples?

Explanation

36 We propose to issue guidance that encourages AFS licensees, authorised representatives and employee representatives to provide useful information and advice to retail clients about basic deposit and insurance products.

Information and advice about an insurance product

37 We have included an example in the appendix about giving factual information and advice to an existing retail client about their motor vehicle insurance policy. Depending on a retail client’s circumstances, we think that there are some single issue insurance topics where you can provide advice in a way that complies with your obligations as an AFS licensee.

38 For example, a retail client could seek:

(a) factual information about how to voluntarily increase the basic excess on a motor vehicle insurance policy and the impact of doing so;

(b) general advice about in what circumstances the adviser would generally recommend that a person voluntarily increase the basic excess on a motor vehicle insurance policy; or

(c) personal advice about whether the retail client specifically should voluntarily increase the basic excess on a motor vehicle insurance policy.

39 We acknowledge that for some retail clients, personal advice about insurance will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

Further examples about basic deposit products and other insurance examples

40 To further demonstrate how to provide factual information and advice on basic deposit and insurance products, we propose to develop specific examples in the future, including the following:

(a) information and advice given by a bank teller to a retail client about the most suitable deposit account for the retail client's needs, including which product has the best features, such as the best interest rate;

(b) information and advice given to a retail client by an insurance telephone sales person about what value the retail client should insure their motor vehicle, home or contents for;

(c) information and advice given to a retail client by an insurance telephone sales person about whether the retail client should take out the available optional cover as part of a home and contents insurance policy (e.g. the client lives in a flood zone and is considering flood cover); and

(d) information and advice given to a retail client by an insurance telephone sales person about the main exclusions as part of a home and contents insurance policy (e.g. the client lives in a flood zone and the policy does not provide flood cover).

Note: The Australian Government is examining flood insurance through a number of initiatives, as well as the introduction of a key facts statement for home and contents insurance. ASIC is monitoring these developments.

41 We welcome suggestions for further examples, and we will consider providing additional or different examples depending on the feedback received in our consultation.

Shares and other listed financial products

Proposal

C3 We propose to include an example in the new regulatory guide on providing factual information and advice to an existing retail client about purchasing shares: see Example 2 in the appendix to this consultation paper.

Your feedback

C3Q1 Do you think that you can scale advice in the way set out in Example 2? Why or why not?

C3Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

C3Q3 If yes, do you have any comments on the example we propose?

C3Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?

C3Q5 Will this example increase access to advice for your retail clients?

C4 Depending on the feedback we receive, we propose to include further specific examples in the new regulatory guide of factual information and advice relating to shares and other listed financial products: see paragraph 46.

Your feedback

C4Q1 Would it be useful for ASIC to provide further examples along the lines of those mentioned in paragraph 46?

C4Q2 Can you suggest any other examples?

Explanation

42 AFS licensees, authorised representatives and employee representatives, including stockbrokers, indirect market participants and financial planners, often provide advice to retail clients about investing in shares and other listed products. In particular, stockbrokers and indirect market participants usually only provide advice about listed financial products, as opposed to a comprehensive financial plan. Often this advice is given over the phone.

43 We have included an example in the appendix about giving factual information and advice to an existing retail client about purchasing shares. Depending on a retail client's circumstances, we think that there are some single issue topics about shares and other listed financial products where you can provide advice in a way that complies with your obligations as an AFS licensee.

44 For example, a retail client could seek:

(a) factual information about current news and developments for a listed financial product;

(b) general advice about what circumstances the adviser would generally recommend that a person purchase the listed financial product; or

(c) personal advice about whether it is a suitable product for the retail client specifically.

45 We acknowledge that for some retail clients, personal advice about shares and other listed financial products will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

46 We also propose to develop further examples in the future for those who provide advice to retail clients about securities and other listed financial

products (e.g. stockbrokers and indirect market participants) using other fact scenarios, such as providing information and advice to a new retail client.

47 We welcome suggestions for further examples, and we will consider providing additional or different examples depending on the feedback received in our consultation.

How to invest an inheritance

Proposal

C5 We propose to include an example in the new regulatory guide on providing factual information and advice to a retail client about how to invest an inheritance: see Example 3 in the appendix to this consultation paper.

Your feedback

C5Q1 Do you think that you can scale advice in the way set out in Example 3? Why or why not?

C5Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

C5Q3 If yes, do you have any comments on the example we propose?

C5Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?

C5Q5 Will this example increase access to advice for your retail clients?

C5Q6 Can you suggest any other examples?

Explanation

48 AFS licensees, including financial planners and accountants, often provide retail clients with information and advice about how to invest a windfall, such as an inheritance or a redundancy payment. Another common topic of advice is how to transfer wealth to dependents.

49 We have included an example in the appendix about how to invest an inheritance. Depending on a retail client’s circumstances, we think that there are some investment topics where you can provide advice in a way that complies with your obligations as an AFS licensee.

50 For example, a retail client could seek:

(a) factual information about possible approaches to investing an inheritance;

(b) general advice about how the adviser would generally recommend that a person invest an inheritance; or

(c) personal advice about how the retail client specifically should invest the inheritance.

51 We acknowledge that for some retail clients, personal advice about investing an inheritance will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

Other financial products

Proposal

C6 We propose to include guidance and examples in the new regulatory guide on advice about other financial products, if this would be useful for your business and/or retail clients.

Your feedback

C6Q1 Are there other financial products that it would be useful for ASIC to provide guidance and/or examples about? Please be as specific as possible about the guidance or examples you would like.

Explanation

52 AFS licensees, authorised representatives and employee representatives provide their retail clients with information and advice about a range of financial products. While we cannot provide guidance and examples on every advice issue, we would like our guidance to include a sample of the financial products and advice issues that retail clients often seek advice about. We would welcome your suggestions for further guidance and examples.

D Additional examples of scaled superannuation advice

Key points

Our guidance in RG 200 includes examples of giving factual information, general advice and personal advice about common superannuation topics, including changing investment options, making extra contributions, insurance and financial hardship.

We propose to provide additional examples of how to give factual information, general advice and personal advice on the following superannuation topics:

- intra-pension issues;
- transition to retirement;
- nomination of beneficiaries;
- superannuation and Centrelink payments; and
- single issue advice on retirement planning.

The examples in RG 200 and our proposed additional examples apply to all AFS licensees, including superannuation trustees and financial planners. The examples will also apply to accountants who currently hold an AFS licence.

Summary of topics

53 RG 200 provides guidance on giving information and advice to a member about their existing interest in their superannuation fund with examples of giving factual information, general advice and personal advice on a number of superannuation-related issues that members commonly have queries about.

54 The examples in RG 200 cover the following topics:

(a) changing investment options;

(b) making extra contributions to superannuation;

(c) increasing life insurance; and

(d) accessing hardship payments.

55 The guidance in RG 200 encourages advice providers to offer to provide advice on single topics, rather than holistic advice, where appropriate.

56 Under the Future of Financial Advice reforms, the Australian Government has announced an expansion of the guidance in RG 200 to a range of retirement topics.

57 Many Australians would like more information and advice about retirement issues relating to superannuation. An ASIC report released in December 2010 found that 'one of the biggest areas of perceived need is superannuation advice, with retirement being the most commonly identified trigger for seeking financial advice'. The report also found that one third of Australians 'are now expressing a preference for piece-by-piece advice rather than holistic or comprehensive advice'.

Note: See REP 224 at paragraphs 53 and 62.

58 We propose to provide additional examples in the new regulatory guide on the following topics:

(a) intra-pension issues;

(b) transition to retirement;

(c) nomination of beneficiaries;

(d) superannuation and Centrelink payments; and

(e) single issue advice on retirement planning.

59 For each example, we have included a scenario where factual information, general advice and personal advice is provided (similar to the format of the examples in RG 200).

60 You can choose to give a retail client either factual information, general advice or personal advice, as long as you make it clear what kind of service you are offering.

61 The scenarios are designed to be examples of how you can scale advice. You can also apply the guidance in these examples to scale the advice you give about other issues. The proposed additional examples are set out in the appendix to this consultation paper. We have included a brief discussion below about each of these topics and some questions for your feedback.

Intra-pension issues

Proposal

D1 We propose to include an example in the new regulatory guide on providing members with factual information and advice about intra-pension issues: see Example 4 in the appendix to this consultation paper.

Your feedback

D1Q1 Do you think that you can scale advice in the way set out in Example 4? Why or why not?

D1Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

D1Q3 If yes, do you have any comments on the example we propose?

D1Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?

D1Q5 Will this example increase access to advice for your retail clients?

Explanation

62 Depending on a member's circumstances, we think that there are some single issue intra-pension topics where you can provide advice in a way that complies with your obligations as an AFS licensee.

63 For example, a member could seek:

(a) factual information about what factors will affect how long a pension will last;

(b) general advice about how account-based income streams work and the potential to exhaust a member's funds if expenditure is not kept in check; or

(c) personal advice about how long the pension would be likely to last for the member specifically.

64 We acknowledge that for some members, personal advice about intra-pension issues will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

Transition to retirement

Proposal

D2 We propose to include an example in the new regulatory guide on providing factual information and advice about transition to retirement issues to a retail client who is a member of a superannuation fund: see Example 5 in the appendix to this consultation paper.

Your feedback

D2Q1 Do you think that you can scale advice in the way set out in Example 5? Why or why not?

D2Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

D2Q3 If yes, do you have any comments on the example we propose?

D2Q4 If you are an adviser, will this example help you to scale advice in an way that complies with your obligations as an AFS licensee? If not, why not?

D2Q5 Will this example allow you to increase access to advice for your retail clients?

Explanation

65 Depending on a member's circumstances, we think that there are some single issue transition-to-retirement topics where you can provide advice in a way that complies with your obligations as an AFS licensee.

66 For example, a member could seek:

(a) factual information about how the rules on transition to retirement work;

(b) general advice about the circumstances in which the adviser would generally recommend that a person take up this option; or

(c) personal advice about whether it is a suitable option for the member specifically.

67 We acknowledge that for some members, personal advice about transition to retirement will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

Nomination of beneficiaries

Proposal

D3 We propose to include an example in the new regulatory guide on providing members with factual information and advice about nominating beneficiaries: see Example 6 in the appendix to this consultation paper.

Your feedback

D3Q1 Do you think that you can scale advice in the way set out in Example 6? Why or why not?

D3Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

D3Q3 If yes, do you have any comments on the example we propose?

D3Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?

D3Q5 Will this example increase access to advice for your retail clients?

Explanation

68 Depending on a member's circumstances, we think that there are some single issue topics relating to nomination of beneficiaries where you can provide advice in a way that complies with your obligations as an AFS licensee.

69 For example, a member could seek:

(a) factual information about the actual process of nominating beneficiaries and how often the nomination needs to be updated to remain effective;

(b) general advice about methods of nominating beneficiaries; or

(c) personal advice about nominating beneficiaries in the member's specific circumstances.

70 We acknowledge that for some members, personal advice about nominating beneficiaries will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

Superannuation and Centrelink payments

Proposal

D4 We propose to include an example in the new regulatory guide on providing members with factual information and advice about superannuation issues that relate to Centrelink payments: see Example 7 in the appendix to this consultation paper.

Your feedback

D4Q1 Do you think that you can scale advice in the way set out in Example 7? Why or why not?

D4Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

D4Q3 If yes, do you have any comments on the example we propose?

D4Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?

D4Q5 Will this example increase access to advice for your retail clients?

Explanation

71 Depending on a member's circumstances, we think that there are some single issue topics relating to superannuation and Centrelink payments where you can provide advice in a way that complies with your obligations as an AFS licensee.

72 For example, a member could seek:

(a) factual information about how issues relating to a member's superannuation can affect their Centrelink payments;

(b) general advice about what the adviser would generally recommend in relation to a superannuation issue that may affect the member's Centrelink payments; or

(c) personal advice about what the adviser recommends that the member do in their specific circumstances (e.g. what decision would be most beneficial for the member in terms of their Centrelink payments).

73 We acknowledge that for some members, personal advice about their superannuation and Centrelink payments will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

Retirement planning: Single issue advice

Proposal

D5 We propose to include an example in our new regulatory guide on providing factual information and advice about a specific retirement planning issue: see Example 8 in the appendix to this consultation paper.

Your feedback

D5Q1 Do you think that you can scale advice in the way set out in Example 8? Why or why not?

D5Q2 If not, can you suggest an example of when it would be appropriate to scale advice?

D5Q3 If yes, do you have any comments on the example we propose?

D5Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?

D5Q5 Will this example increase access to advice for your retail clients?

Explanation

74 Depending on a member's circumstances, we think that there are some single issue topics relating to retirement planning where you can provide advice in a way that complies with your obligations as an AFS licensee.

75 For example, a member could seek:

(a) factual information about paying a windfall into their mortgage versus into their superannuation;

(b) general advice about what the adviser would generally recommend in relation to paying a windfall into a mortgage versus into superannuation; or

(c) personal advice about what the adviser recommends that the member do in their specific circumstances.

76 We acknowledge that for some members, personal advice about retirement planning will need to address complex issues. As the person providing the advice, you need to determine how to scale the advice you are giving. We encourage you to contact ASIC if you are in doubt about the best approach.

E Revoking class order relief

Key points

We have previously given licensed superannuation trustees and their authorised representatives class order relief from the requirements in s945A of the Corporations Act where personal advice is provided about a member's existing interest in their fund: see Class Order [CO 09/210] *Intra-fund superannuation advice*.

We proposed to revoke [CO 09/210] as we understand that this relief is not widely used.

Proposal

E1 We propose to revoke [CO 09/210], which gives relief from the requirements in s945A of the Corporations Act where personal advice is provided about a member's existing interest in their fund.

Your feedback

E1Q1 If you are giving scaled advice, are you currently relying on the relief in [CO 09/210]? If so, what kind of advice are you providing while relying on this relief?

E1Q2 If you are not relying on [CO 09/210], why have you chosen not to rely on this relief?

E1Q3 Is there any reason why we should not revoke [CO 09/210]?

E1Q4 If you are currently relying on [CO 09/210], could you provide advice by complying with the requirements of s945A?

Explanation

77 If you are a superannuation fund trustee, you can choose to give personal advice to members about their existing interest in your fund (including insurance) by relying on the relief in [CO 09/210] or by complying with the requirements of s945A.

78 Our understanding is that a number of superannuation funds are now giving scaled advice to members using our guidance in RG 200. There are also indications that very few funds are currently relying on the relief in [CO 09/210].

79 In addition, the Australian Government has announced that s945A will be amended to clarify that AFS licensees can scale advice and still comply with s945A, making our relief less necessary.

Note: See also R. Campo, 'The intra-fund advice revolution', *Journal of Financial Advice*, Volume 3 Issue 4 2010, p. 1.

80 Accordingly, we consider that it is appropriate to revoke [CO 09/210] given our understanding that this relief is not widely used.

F Regulatory and financial impact

81 In developing the proposals in this paper, we have carefully considered their regulatory and financial impact. On the information currently available to us we think they will strike an appropriate balance between:

(a) enhancing the ability of AFS licensees to give information and advice to retail clients on single issue topics about financial products; and

(b) ensuring that the advice that retail clients receive complies with the law.

82 Before settling on a final policy, we will comply with the Australian Government's regulatory impact analysis (RIA) requirements by:

(a) considering all feasible options, including examining the likely impacts of the range of alternative options which could meet our policy objectives;

(b) if regulatory options are under consideration, notifying the Office of Best Practice Regulation (OBPR); and

(c) if our proposed option has more than minor or machinery impact on business or the not-for-profit sector, preparing a Regulation Impact Statement (RIS).

83 All RISs are submitted to the OBPR for approval before we make any final decision. Without an approved RIS, ASIC is unable to give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.

84 To ensure that we are in a position to properly complete any required RIS, we ask you to provide us with as much information as you can about our proposals or any alternative approaches, including:

(a) the likely compliance costs;

(b) the likely effect on competition; and

(c) other impacts, costs and benefits.

See 'The consultation process', p. 4.

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an Australian financial services licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
ASIC	Australian Securities and Investments Commission
[CO 09/210] (for example)	An ASIC class order (in this example numbered 09/210)
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
Financial Services Guide	A document that must be given to a retail client in relation to the provision of a financial service in accordance with Div 2 of Pt 7.7 of the Corporations Act Note: See s761A of the Corporations Act for the exact definition.
FSG	Financial Services Guide
Future of Financial Advice	A package of proposed reforms to the regulation of financial advice issued by the Australian Government in response to the PJC report *Inquiry into financial products and services in Australia*, November 2009
general advice	Financial product advice that is not personal advice Note: This is a definition contained in s766B(4) of the Corporations Act.
PDS	Product Disclosure Statement
personal advice	Financial product advice given or directed to a person (including by electronic means) in circumstances where: • the provider of the advice has considered one or more of the client's objectives, financial situation and needs; or • a reasonable person might expect the provider of the advice to have considered one or more of those matters Note: This is a definition contained in s766B(3) of the Corporations Act.

Term	Meaning in this document
PJC	Parliamentary Joint Committee on Corporations and Financial Services
Product Disclosure Statement	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act Note: See s761A for the exact definition.
Pt 7.7 (for example)	A part of the Corporations Act (in this example numbered 7.7)
reg 7.1.29 (for example)	A regulation of the Corporations Regulations (in this example numbered 7.1.29)
relevant personal circumstances	Such of a person's objectives, financial situation or needs as would reasonably be considered to be relevant to the advice Note: This is a definition contained in s761A of the Corporations Act.
retail client	A client as defined in s761G of the Corporations Act and Ch 7, Pt 7.1, Div 2 of the Corporations Regulations
RG 146 (for example)	An ASIC regulatory guide (in this example numbered 146)
s782 (for example)	A section of the Corporations Act (in this example numbered 782)
SOA	Statement of Advice
Statement of Advice	A document that must be given to a retail client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act Note: See s761A for the exact definition.

List of proposals and questions

Proposal		Your feedback	
B1	We propose to replace RG 200 with a new regulatory guide that would: (a) apply to all AFS licensees, including superannuation trustees, financial planners and accountants (see paragraph 15); (b) build on the current guidance and examples in RG 200 (see paragraphs 16–18); and (c) include additional guidance on some areas (see paragraphs 19–28). The new regulatory guide would also include additional examples of how to scale advice: see Sections C and D of this consultation paper.	B1Q1	Will our proposed updated guidance help you to scale advice to your retail clients?
C1	We propose to include an example in the new regulatory guide on providing factual information and advice about motor vehicle insurance to an existing retail client: see Example 1 in the appendix to this consultation paper.	C1Q1	Do you think that you can scale advice in the way set out in Example 1? Why or why not?
		C1Q2	If not, can you suggest an example of when it would be appropriate to scale advice?
		C1Q3	If yes, do you have any comments on the example we propose?
		C1Q4	If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not?
		C1Q5	Will this example increase access to advice for your retail clients?
C2	Depending on the feedback we receive, we propose to include further specific examples in the new regulatory guide of factual information and advice, including for a deposit account, home and contents insurance, optional cover within an insurance policy and insurance policy exclusions: see paragraph 40.	C2Q1	Would it be useful for ASIC to provide further examples along the lines of those set out in paragraph 40?
		C2Q2	Can you suggest any other examples?

Proposal	Your feedback
C3 We propose to include an example in the new regulatory guide on providing factual information and advice to an existing retail client about purchasing shares: see Example 2 in the appendix to this consultation paper.	C3Q1 Do you think that you can scale advice in the way set out in Example 2? Why or why not? C3Q2 If not, can you suggest an example of when it would be appropriate to scale advice? C3Q3 If yes, do you have any comments on the example we propose? C3Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not? C3Q5 Will this example increase access to advice for your retail clients?
C4 Depending on the feedback we receive, we propose to include further specific examples in the new regulatory guide of factual information and advice relating to shares and other listed financial products: see paragraph 46.	C4Q1 Would it be useful for ASIC to provide further examples along the lines of those mentioned in paragraph 46? C4Q2 Can you suggest any other examples?
C5 We propose to include an example in the new regulatory guide on providing factual information and advice to a retail client about how to invest an inheritance: see Example 3 in the appendix to this consultation paper.	C5Q1 Do you think that you can scale advice in the way set out in Example 3? Why or why not? C5Q2 If not, can you suggest an example of when it would be appropriate to scale advice? C5Q3 If yes, do you have any comments on the example we propose? C5Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not? C5Q5 Will this example increase access to advice for your retail clients? C5Q6 Can you suggest any other examples?
C6 We propose to include guidance and examples in the new regulatory guide on advice about other financial products, if this would be useful for your business and/or retail clients.	C6Q1 Are there other financial products that it would be useful for ASIC to provide guidance and/or examples about? Please be as specific as possible about the guidance or examples you would like.

Proposal	Your feedback
D1 We propose to include an example in the new regulatory guide on providing members with factual information and advice about intra-pension issues: see Example 4 in the appendix to this consultation paper.	D1Q1 Do you think that you can scale advice in the way set out in Example 4? Why or why not? D1Q2 If not, can you suggest an example of when it would be appropriate to scale advice? D1Q3 If yes, do you have any comments on the example we propose? D1Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not? D1Q5 Will this example increase access to advice for your retail clients?
D2 We propose to include an example in the new regulatory guide on providing factual information and advice about transition to retirement issues to a retail client who is a member of a superannuation fund: see Example 5 in the appendix to this consultation paper.	D2Q1 Do you think that you can scale advice in the way set out in Example 5? Why or why not? D2Q2 If not, can you suggest an example of when it would be appropriate to scale advice? D2Q3 If yes, do you have any comments on the example we propose? D2Q4 If you are an adviser, will this example help you to scale advice in an way that complies with your obligations as an AFS licensee? If not, why not? D2Q5 Will this example allow you to increase access to advice for your retail clients?
D3 We propose to include an example in the new regulatory guide on providing members with factual information and advice about nominating beneficiaries: see Example 6 in the appendix to this consultation paper.	D3Q1 Do you think that you can scale advice in the way set out in Example 6? Why or why not? D3Q2 If not, can you suggest an example of when it would be appropriate to scale advice? D3Q3 If yes, do you have any comments on the example we propose? D3Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not? D3Q5 Will this example increase access to advice for your retail clients?

Proposal	Your feedback
D4 We propose to include an example in the new regulatory guide on providing members with factual information and advice about superannuation issues that relate to Centrelink payments: see Example 7 in the appendix to this consultation paper.	D4Q1 Do you think that you can scale advice in the way set out in Example 7? Why or why not? D4Q2 If not, can you suggest an example of when it would be appropriate to scale advice? D4Q3 If yes, do you have any comments on the example we propose? D4Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not? D4Q5 Will this example increase access to advice for your retail clients?
D5 We propose to include an example in our new regulatory guide on providing factual information and advice about a specific retirement planning issue: see Example 8 in the appendix to this consultation paper.	D5Q1 Do you think that you can scale advice in the way set out in Example 8? Why or why not? D5Q2 If not, can you suggest an example of when it would be appropriate to scale advice? D5Q3 If yes, do you have any comments on the example we propose? D5Q4 If you are an adviser, will this example help you to scale advice in a way that complies with your obligations as an AFS licensee? If not, why not? D5Q5 Will this example increase access to advice for your retail clients?
E1 We propose to revoke [CO 09/210], which gives relief from the requirements in s945A of the Corporations Act where personal advice is provided about a member's existing interest in their fund.	E1Q1 If you are giving scaled advice, are you currently relying on the relief in [CO 09/210]? If so, what kind of advice are you providing while relying on this relief? E1Q2 If you are not relying on [CO 09/210], why have you chosen not to rely on this relief? E1Q3 Is there any reason why we should not revoke [CO 09/210]? E1Q4 If you are currently relying on [CO 09/210], could you provide advice by complying with the requirements of s945A?

Appendix: Proposed examples

85 We propose to provide examples of scaled advice on the following non-superannuation topics:

(a) a general insurer providing advice to an existing retail client about what level of excess to purchase on a motor vehicle insurance policy;

(b) a stockbroker advising an existing retail client about purchasing shares; and

(c) an accountant giving general strategic advice to a retail client about how to invest an inheritance.

86 We also propose to provide additional examples on how to scale advice on the following superannuation topics:

(a) intra-pension issues;

(b) transition to retirement;

(c) nomination of beneficiaries;

(d) superannuation and Centrelink payments; and

(e) single issue advice on retirement planning.

87 For each example, we have included a scenario where factual information, general advice and personal advice is provided (similar to the format of the examples in RG 200). You can choose to give a retail client either factual information, general advice or personal advice, as long as you make it clear to the retail client what kind of service you are offering.

88 The scenarios are designed to be examples of how you can scale advice. You can also apply the guidance in these examples to scale the advice you give about other issues.

Example 1: Motor vehicle insurance—Which level of excess?

Factual information

Operator	Good afternoon. You have called XYZ Insurance. My name is Ben, how may I help you?
Josh	Hi, my name is Josh. I insured my car with XYZ about a year ago. I've made two claims since I bought the policy and have been paying the standard excess amount until now. I'm considering switching to a policy with a lower premium but a higher excess.
Operator	Thanks for your phone call, Josh. Could you please provide your policy number?
Josh	My policy number is 654321.
Operator	I see you have comprehensive insurance with XYZ and you're now 19 years old. I am able to give you some factual information about the options available under the XYZ comprehensive policy in relation to payment of the basic excess. I cannot give you any advice about the decision you make. Is this okay with you?
Josh	Yes, that's fine.
Operator	You will always need to pay an excess, when you make a claim. For drivers in the 18–24 year age bracket, the basic excess is $850, which is made up of a standard excess of $500 that all customers, regardless of their age, must pay in the event of a claim and an additional age excess of $350 that customers between the ages of 18 and 24 must pay in the event of a claim. Based on what you have disclosed to us at renewal of your policy about your current situation, there are currently no other excesses that you need to pay in the event of a claim. XYZ will not pay a claim where the damage or loss incurred is less than the total excess amount. You can, however, increase your basic excess rate of $850. Do you want me to give you a quote?

Josh's personal circumstances have been used to tailor the factual information provided. This does not constitute advice.

At this point the operator ensures Josh has a copy of the PDS.

Josh	Thanks, it would great if you could give me a quote. **[The operator then provides a quote and information about the steps Josh needs to take if he wants to increase his basic excess.]**

General advice

Operator	Good afternoon. You have called XYZ Insurance. My name is Ben, how may I help you?
Josh	Hi, my name is Josh. I insured my car with XYZ about a year ago. I've made two claims since I bought the policy and have been paying the standard excess amount until now, but I'm considering agreeing to pay a higher excess in exchange for a lower premium when I renew my policy.
Operator	Thanks for your phone call, Josh. Could you please provide your policy number?
Josh	My policy number is 654321.
Operator	I see you have comprehensive insurance with XYZ and you're now 19 years old. I'm happy to give you some advice about what we generally recommend to our customers, but I can't give you personal advice about whether this is the right thing to do in your circumstances.
Josh	That's fine.
Operator	When you make a claim you will always need to pay an excess. For drivers in the 18–24 year age bracket, the basic excess is $850, which is made up of a standard excess of $500 that all customers, regardless of their age, must pay in the event of a claim and an additional age excess of $350 that customers between the ages of 18 and 24 must pay in the event of a claim. Based on what you have disclosed to us at renewal of your policy about your current situation, there are currently no other excesses that you need to pay in the event of a claim. I can provide you with a quote over the phone now if you would like to compare the impact that increasing your basic excess would have on your annual premium.

Josh	Thanks, it would be great if you could give me a quote. **[The operator then provides a quote and information about the steps Josh needs to take if he wants to increase his basic excess.]**
Operator	XYZ will not accept your claim if the damage or loss incurred is less than the amount of the excess. If you increase your basic excess, this increases the minimum value of damage or loss that XYZ is willing to cover and you will be required to pay a larger amount to XYZ before we will pay your claim. You should ensure that you will be able to afford that amount. That amount for you is currently $850, and if you increase your basic excess, your excess will be at least $1000, as the minimum voluntary increase to the basic excess is $150. This means that if you make a claim for damage valued at, say, $1500, you would have to pay $1000 and XYZ would only pay $500. If the value of damage is below $1,000, XYZ will not provide any cover at all and you would have to pay that amount yourself. Your financial situation and ability to pay up to this amount for a single incident is something we recommend you take into consideration before making any changes to your basic excess amount. We generally recommend a lower basic excess for customers who are concerned about being unable to afford a high uninsured loss in the event of a claim. On the other hand, a lower basic excess will have the effect of increasing your premium amount, and we recommend you weigh this ongoing annual cost against the cost of increasing your basics excess for a lower premium.
Josh	Thanks, I might have to give this some more thought. I'll call again if I have any questions

Personal advice

Operator	Good afternoon. You have called XYZ Insurance. My name is Ben, how may I help you?

Josh	Hi, my name is Josh. I insured my car with XYZ about a year ago. I've made 2 claims since I bought the policy and I've been paying the standard excess amount until now, but I'm considering agreeing to pay a higher excess in exchange for a lower premium when I renew my policy. I'm just not sure if this is a good idea.
Operator	Thank you for your call, Josh. Could you please provide your policy number?
Josh	My policy number is 654321.
Operator	I see you have comprehensive insurance with XYZ and you're now 19 years old. I would be happy to provide you with some advice about whether to increase your basic excess, based on your personal circumstances. Would you like me to consider other options that could make your policy more affordable? Or would you like me to just stick to whether or not to increase your basic excess?
Josh	At this stage I only want advice on whether to increase my basic excess. **[At this point the operator will perform the appropriate identity checks to confirm that they are speaking with the account holder, and also confirm that Josh has a current copy of the PDS and FSG]**
Operator	That's fine, I've now got your account details here in front of me and I can give you some advice about which option is best for you. I can see that you currently have a basic excess of $850, which is made up of a standard excess of $500 that all customers, regardless of their age, must pay in the event of a claim and an additional age excess of $350 that customers between the ages of 18 and 24 must pay in the event of a claim Based on what you have disclosed to us at renewal of your policy about your current situation, there are currently no other excesses that you need to pay in the event of a claim. You can alter the basic excess rate of $850. Do you want me to give you a quote? If you increase your basic excess, your excess will be at least $1000, as the minimum voluntary increase to the basic excess is $150. It is possible that some damage or loss that you incur would be less than this excess amount and XYZ will not pay a claim if the damage or loss is less than the excess amount.

Operator (cont.)	You also need to consider whether you think you would be able to afford to pay $1000 or more in the event you need to make a claim. What level of excess do you think you could afford in the event of a claim?
Josh	I am a full-time student, I only work a few hours each week. My parents agreed to pay my premiums this year, as they want me to have comprehensive cover, but they said I have to pay the excess if I make a claim. I do have a bit of money saved but generally spend most of my earnings each pay cycle. I've learnt a lesson from my last two claims, though, and I don't imagine I will need to make any more claims any time soon, and on that basis I wanted to consider lowering my premium. Can you tell me how much the premium will be if I increase the excess to $1000? **[The operator then provides a quote and information about the steps Josh needs to take if he wants to increase his basic excess]**
Operator	The value of having an insurance policy is the ability to make a claim when you need to. While you consider yourself unlikely to need to make a claim any time soon, there is always the possibility that an incident will occur. You have made two claims in the last 12 months and you are in an age group that XYZ considers being at high risk of making a claim. You also need to consider that you may need to make a claim because of actions by another person. What you have told me about your financial situation would suggest you might not be able to afford to pay a high excess in the event of a claim. You have told me that you have some financial assistance from your parents to pay the premium, and I recommend that you consider not increasing your basic excess at this stage. However, it would be worth reviewing this again in 12 months time to see if your circumstances have changed.
Josh	Thanks. I might have to give this some more thought. I'll call again if I have any questions.

No SOA is required: see reg. 7.7.10.

Example 2: Advice from a stockbroker to an existing client

Factual information

Ellora	Hi Steve, it's Ellora. I believe that Big Mines Limited usually announces its annual results around this time. I might be interested to buy some shares. I wonder if you can tell me when that announcement is expected and also what the shares are currently trading at?
Steve (stockbroker)	With pleasure, Ellora. It's great to hear from you after such a long time. The shares are currently $25.60 bid, $25.80 sellers and last sale $25.70. Hold on one second while I look up when the results are due.
Ellora	Thanks, Steve.
Steve	Okay, the results will be announced next Monday morning. If you want, I would be happy to send you a copy of our updated research report after the results.
Ellora	Yes, Steve, I would very much appreciate that. Thanks.

General advice

Extract from research report on Big Mines Limited, sent by ABC Stockbrokers to Ellora

July 2011

Big Mines Limited is currently trading in the region of $25–$27 and, having reviewed the company's annual profits results, we believe it is being undervalued by the market.

We are therefore recommending clients add Big Mines Limited to their portfolios, up to $28.50 with our target price of $31.

Please note that this is general advice for all of our clients. If you do wish to consider a purchase of Big Mines Limited, please contact your ABC Stockbrokers client adviser to discuss the appropriateness of this recommendation for your own personal financial circumstances.

Personal advice

Ellora	Hi Steve, it's Ellora again. I just read your research report on Big Mines, and I'm interested in buying some shares. Do you think this would be a good stock to add to my portfolio? I have about $11,000 I'd like to invest. I'm going on a holiday with this weekend so need to tie up the loose ends today if possible.
Steve (stockbroker)	Hi Ellora. I do like Big Mines, but before we do anything let me have a look at your file.
Ellora	Yes, it has been quite a few months since I last bought shares. You may remember at the time I was hesitant about the outlook for the stock market. I feel more confident now.
Steve	Oh yes, I recall. I can see from my file that was actually about four months ago. Has anything changed at home? Are you still with Jones and Jones in the same job? Have you added any other shares to your portfolio since we last reviewed it?
Ellora	Yes, I'm in the same job. I haven't added to my share portfolio and still want to hold onto the shares as a long-term investment. After we last spoke you sent me a portfolio review and an updated Statement of Advice.
Steve	Yes, I see that. If you check the review I sent you, you will see that I thought you were a little heavy in your bank stocks but didn't recommend you sell them, as they do pay good dividends. I think this is now a good opportunity to balance things a little better, to put some eggs in a different basket. I've read our research report on Big Mines and consider it a good long-term growth prospect. Of course, with mining there are always risks, but they are a pretty solid company that has been around for a while. The mining boom is still going strong, so I'm confident that these will be a solid investment.
Ellora	That sounds good to me. What is the current price?

Under s946B(1), no SOA is required to be given in relation to this advice because:

- Ellora has requested market-related advice by telephone (s946B(1)(g)(i));
- ABC Stockbrokers has provided a SOA previously to the client—satisfying another requirement of s946B(1) (see s946B(1)(b)); and
- based on Ellora's statement, Steve and ABC Stockbrokers can assume that Ellora's circumstances and objectives haven't changed since the last SOA was given. It also establishes that the last SOA was given within 12 months of this advice (see s946B(1)(d)).

As Steve is giving advice only on securities and derivatives that are able to be traded on a licensed market, and is not giving advice about any other financial products, another requirement of s946B(1) is satisfied: see s946B(1)(c) and s946B(1)(f)(i).

By providing information about his remuneration, Steve is satisfying another requirement of s946B(1): see s946B(3) and s947B(2)(d).

As the requirements of s946B(1) have been met, Steve is not required to provide a SOA; however, he is required to record the further advice—in a 'record of advice'. Reg 7.7.09(1) outlines what information Steve should record: see 946B(3A)

Steve	I should be able to pick them up for you now at $25.70. I will charge you your usual brokerage rate of 1.5% plus GST. Do you want me to go ahead?
Ellora	Yes. Please buy 400, but at a limit of $25.80.
Steve	Great. I'll put that through straight away. I don't need to give you another Statement of Advice, but we keep what is called a record of advice. I can email you a copy when you get back from your holiday. Have a great time away.
Ellora	Thanks for that Steve. Will call when I get back.

Example 3: How to invest an inheritance

Factual information

William	Hi Emma, this is William Boyd. I haven't spoken to you since last year's tax return, but I was wondering if you'd have a few minutes to give me some information. I have recently received a cash inheritance and would like some information about possible options for investing it. I don't want to invest it in property, though, because I plan to use the money to buy another house in a few years time.
Emma (accountant)	There are many investment options and structures available for you to invest your inheritance, and making the right decision can be difficult. I would be happy to provide you with some factual information about these options, but if you would like advice after that I can set up an appointment for you.
William	That's fine, thanks.
Emma	One option available to you is to pay off debt such as a mortgage, personal loan, car loan or credit card. Paying off a loan will save you interest, although you may incur exit fees and it may have taxation consequences for you if it is for investment purposes. There are a lot of investments you can choose from—too many to explain here, but I will explain some of the more common options for your situation. First-home saver accounts can be used when you are saving to buy or build your first home.
William	I have already bought and sold a property.
Emma	Right, in that case, term deposits are similar, in that they provide a fixed interest rate for a specified term, but are not limited to first-home savers. The term can range from one month to a few years. It is normally possible to withdraw the money prior to the end of the agreed term; however, early termination fees may apply.

William's personal circumstances have been used to tailor the factual information provided. This does not constitute advice.

Emma (cont.)	Another option, shares, makes you a part-owner of a business. You can purchase direct shares in companies of different industries, such as mining, financials, real estate and healthcare, so risk can be spread across different sectors. You can also invest in assets indirectly through managed funds. Managed funds pool your money together with others and an investment manager invests the money on your behalf. You are usually paid an income periodically and the value of the investment will rise and fall with the underlying assets. These generally include cash, fixed interest, property or shares. Depending on the underlying assets chosen, a managed fund may be conservative or risky. Managed funds allow access to investments you might not be able to access as a retail investor. The convenience of managed funds usually comes at a price: higher fees, in some cases less liquidity and reliance on others to manage your money. William, if you want more information on the options I have discussed please visit our website. You may also like to visit ASIC's website www.moneysmart.gov.au, which has a lot of valuable information.
William	Thanks. I will have a look at the websites and I will call you if I have any further questions.

General advice

William	Hi Emma, this is William Boyd. You gave me some information last week about possible options for investing an inheritance. I have recently received a cash inheritance and would like to know how I should invest it. I don't want to invest it in property, though, because I plan to use the money to buy another house in a few years time.
Emma (accountant)	Hi William. I would be happy to provide you with some general advice about the different options available to you that we discussed last week. If you want personal advice, you can make an appointment with me and we can sit down and go through your financial and personal circumstances.

At this point the adviser would provide an FSG, if the client did not already have one.

William	I'm not sure I need any formal advice at this stage, I just want to know my options, is this something you can help me with?
Emma	Okay, I'll take you through the investments we generally recommend to our clients. Generally, for clients that receive an inheritance, I would recommend that they first pay off loans such as personal loans, car loans or credit cards. Reduction of this debt will free up cash-flow. Before paying off any debt you should consider whether early termination or legal fees apply. In situations where investors require access to funds, are saving for a short-term goal or are conservative investors, I would advise to invest in a term deposit. A term deposit is considered to be a relatively safe investment type and provides a fixed interest rate for a specified term. The term can range from one month to a few years, so a specified term can be entered into depending on your requirements. It is normally possible to withdraw the money prior to the end of the term, but early termination fees may apply. The options that I have just discussed are more suited to low-risk investors. However, for investors that are willing to accept higher risk for the potential of greater long-term returns, I would recommend shares or managed fund investments. Shares can be suitable for investors who have a long-term investment time frame, a high risk tolerance, a need for capital growth, a high surplus income or a high net asset position. An investor can purchase direct shares in companies of different industries, such as mining, financials, real estate and healthcare, so risk can be spread across different sectors easily. Some investors prefer to have their investments professionally managed, or they have small asset bases but want diversification, or they desire an investment that is convenient to manage. In these instances, I would recommend that investors invest in a managed fund. As we discussed last week, a managed fund pools your money together with that of other investors and an investment manager invests the money on your behalf. You are usually paid a periodical income distribution and the value of your investment will rise and fall with the value of the underlying assets. As you can see, there are a lot of options for you.

William	Thanks, that is a lot of information to consider. I think I would like to make an appointment to come in and get some personal advice about what I should do.
Emma	Great, we can set that up now. To help me understand what your investment aims are, I will send you some documents with some questions that you can fill out and return to me before our meeting.

Personal advice

Emma (accountant)	Hi William, just a quick call to confirm a few more things. Thank you for completing the documents I sent you. I have already reviewed your situation and just need to clarify a few details with you before I can form my recommendations.
William	No worries.
Emma	According to the documents you completed: • your grandmother died in September last year and you have inherited $150,000 from the sale of her home. This is currently held in your cash account at Big Bank; • you are 27 years old, single, with no dependents; • you recently started a job as an engineer after graduating and earn $50,000 per annum, plus super; • you live at home with your parents, but would like to own your own home again in the next two years; • you estimate your living expenses to be approximately $20,000 per annum; • you recently purchased a car for $40,000, which is fully financed at 10.99% per annum with a loan term of seven years. This expense is additional to your living expenses; • you have $2000 in a savings account, separate to your inheritance that you would like to retain. You have no other assets apart from the savings account and the car; • you do not need cash flow generated from the investment for living expenses. Surplus cash flow can be reinvested;

Although the client has written in their answers what they want advice on, it is important for the adviser to clarify this with the client.

Emma (cont.)	• you would like to use some of your inheritance to cover travel costs to Europe in 12 months. This has a cost of $30,000; • you would also like to preserve some of the inheritance, about 10%, so that if you decide to do further study in the future, there are funds available to you; • you have previously owned your own home, but sold it last year. Does this sound right?
William	Yes, that's right.
Emma	Okay. I just need to run you through an exercise to measure your tolerance to risk and return expectations. **[Emma then completes risk profile exercise resulting in a 'Growth' outcome]** You stated in your answers that you are seeking advice about your inheritance. Where I identify other areas that I think you should address, do you want me to provide recommendations on those areas?
William	No, I just want advice on how to invest my inheritance.

[At a subsequent face-to-face meeting Emma discusses the following with William]

Emma	Okay, I have prepared my recommendations for you in this Statement of Advice. I have limited my advice to only the investment of your inheritance money. I haven't reviewed your whole financial situation, but if you would like advice in any other areas, I may be able to help you. I recommend that you use $40,000 to pay off your car loan. The interest repayments on your car loan are not tax deductible; therefore, you are not deriving any benefit from it. If you pay out your car loan you will save approximately $17,514 in interest payments over the life of the loan and have an extra $685 per month which can be invested.

Emma (cont.)

You have advised that you would like to preserve some of the capital received from your inheritance for future study and some for a house deposit. Therefore, I recommend that you invest $80,000 in an ABC 12-month term deposit:

- $15,000 to cover your study costs; and
- $65,000 to use as a deposit for your house purchase in two years time. You can roll over this amount for a second 12-month term if required.

A term deposit will provide you with modest returns, enabling the capital to grow over time. It is important for you to grow your capital to keep pace with rising education costs. I have recommended a 12-month term due to your uncertainty about the timing of your study, and to allow flexibility if you decide to purchase your house sooner. The ABC Bank 12-month interest rate is 6.3% per annum, providing you with an annual pre-tax return of $5040 for an $80,000 deposit. It is possible to achieve higher returns with a longer duration; however, early termination fees will generally apply if withdrawn before the end of the term.

You have also advised that you would like to use your inheritance for a European holiday in 12 months time at a cost of $30,000. I recommend that you invest $30,000 from your inheritance in an ABC Bank term deposit, with a maturity of six months, at an interest rate of 6.00%. At the end of the six-month period, you will be able to access the $30,000 to pay for your travel costs, plus receive interest of approximately $911. Any surplus funds can be reinvested until your holiday. If you need help with this I can make a recommendation at the time.

As agreed, this advice has been limited to the investment of your inheritance money. However, during this exercise I have noted that you have a surplus income of approximately $13,000 per annum after tax and living expenses. If you pay off your car loan, you will also have an extra $685 per month. If you would like me to provide you with advice in relation to this money, or any other aspect of your financial situation, I can do so.

Do you have any questions about this plan?

William

No. The plan sounds great—it's exactly what I want and what I feel comfortable with.

No SOA is required because the advice relates to deposit products that fall within an exemption in reg 7.7.10(a).

Emma

Great. I will send you some information about the term deposits that I mentioned.

Example 4: Intra-pension issues—How long will my account-based pension product last?

> In this example, the operator doesn't need to be licensed because no financial advice is being given.

> You should be up-front about the service you are offering—are you giving factual information or advice? In this example, the operator clearly tells Michael upfront that they will not be giving any financial advice.

> You can give factual information to a caller even though you know some personal information about them. In this example, ABC Superannuation Fund has personal information about Michael as a member of their fund, but this doesn't stop the operator from giving Michael factual information.

Factual information

Michael Hi. I am Michael Long, a member of the ABC Pension Fund. I am calling because I am wondering how long my pension will last. I am 68 years old now—should I be doing anything to make my pension last longer?

Operator Hi Michael. I'll explain to you how the ABC Pension Account works. Just so you know up-front, the information I'm about to give you is factual information about how your pension product works. I'm unable to give you any financial advice about what you should do or whether the ABC Pension Account is the right product for you.

Michael Okay then, that's fine for now.

Operator There are a number of factors that will impact on how long your pension will last. These are:

- the fund balance;
- the account returns, after taxes and fees;
- the amount of the pension withdrawn by the member each year; and
- whether any lump sums are withdrawn.

The ABC Pension Account is an account-based income stream product. Each pension fund member has an individual account into which they have invested their superannuation money.

There are five investment options: Cash, Conservative, Balanced, Growth and High Growth.

The amount earned on the account will change depending on the investment option chosen by the member. For example, in times when the share market is rising in value, the High Growth and Growth options are likely to give the best returns, which may result in the account balance lasting longer. However, when the share market falls, these options are more likely to lose money. In this case the account will not last as long as if the returns had been better.

A 'past performance warning' is appropriate in the context of information about performance returns.

Operator (cont.)	The Cash option is more likely to protect against losses when the share market is weak but tends to have the lowest average returns, which are likely to be only slightly better than inflation. You need to be aware that past performance is not necessarily a guide to future performance. The returns we've been discussing can definitely change depending on market conditions, and members should continue to monitor the performance of their fund. Another factor affecting how long the pension will last is the rate at which the funds are withdrawn. If you withdraw lump sums and take a higher pension, the money will run out more quickly. Members select the level of income they wish to withdraw; however, there is a minimum amount that must be taken each year depending on the age of the member. Members aged between 65 and 74 must take a minimum pension of 5% of the total balance each year. It is possible for members to calculate how long their pension will last based on their balance, their current expenditure patterns and the amount they plan to draw down to support this, as well as factoring in a rate of return. If you want more information about the fund and investment options, I suggest you visit our website. There is also a calculator on the website that you can use to estimate how long your pension might last.
Michael	Thanks, that's given me a good overview. I'll have a look at the website now.
Operator	Once you've looked at the website, you may have more questions that involve discussing your particular circumstances. You can talk to someone here who can discuss your pension matters in more detail.

General advice

In this example the operator doesn't need to be licensed because they are relying on the exemption for super fund trustees to give general advice without an AFS licence where that advice is about their own super fund: reg 7.1.33H.

Michael	Hi. I'm Michael Long, a member of the ABC Pension Fund. I am calling because I am wondering how long my pension will last me. I am 68 years old now—should I be doing anything to make my pension last longer?

ABC Superannuation Fund needs to provide this warning, because they are relying on reg 7.1.33H (they are not licensed to provide general advice about their fund).

You need to be up-front about the service you are offering—are you giving factual information or advice? In this example, Michael is clearly told up-front that he will not be given personal advice.

Operator

Hi Michael. I'll explain about how the ABC Pension Account works and how features of this fund may benefit certain types of people more than others.

I need to mention that ABC Superannuation Fund is not licensed to give you advice about the fund, so we recommend that you get a PDS and read it before making a decision. We can send you one in the mail, or you can find it on our website.

Just so you know up-front, I can tell you what we generally recommend for our members, but this information does not consider your personal financial circumstances. If you are after personal financial advice, we can refer you to a financial adviser.

The things that affect how long the ABC Pension Account will last a particular member are:

- the fund balance;
- the account returns after taxes and fees;
- the amount of the pension withdrawn by the member each year; and
- whether any lump sums are withdrawn.

The ABC Pension Account is an account-based income stream product. Each pension fund member has an individual account into which they have invested their superannuation money.

People who are suited to being in the ABC Pension Account are those who like to maintain flexibility as to how much money they withdraw.

Members can take out lump sums at any time and there is no maximum amount that can be taken out. Members select the level of income they wish to draw; however, there is a minimum. Members aged between 65 and 74 must take a minimum pension of 5% of the total balance each year.

Members who prefer the flexibility of an account-based income stream should also be aware that the fund can be exhausted depending on the rate of withdrawals. The members who are suited to this type of product typically have good control over their spending patterns and have other sources of income in the event that they exhaust their account.

For those who want a product that has no risk of being exhausted, even if they live to a very old age, there are other products on the market that may better suit their needs.

Operator (cont.)	Furthermore, members of the ABC Pension Account take on the risk of the fund's performance. This may mean that members should monitor their fund to see if their existing investment option is suitable for them, considering the economic environment of the times. For those who do not like to take on risk, there are other products available on the market where the fund takes on the risk. There are five investment options in the ABC Pension Account: Cash, Conservative, Balanced, Growth and High Growth. The account earnings will be affected by the investment option selected by the member. In times when the share market is rising in value, the High Growth and Growth options are likely to give the best returns, which may result in the account balance lasting longer. However, when the share market falls, these options are more likely to lose money and can even give negative returns. In this case, the account will not last as long as if the returns had been better. The ABC Pension Account Cash option is more likely to protect against losses when the share market is weak but tends to have the lowest average returns, which are likely to be only slightly better than inflation. Members who give consideration to their investment option should also take their age and time horizon into account. On average, a member who is 65 will live another 20 or so years. Such members might be more likely to be suited to the ABC Pension Account Balanced option to extend the life of their pension product. A member who is in their late 80s, or is in poor health, may consider that they will not need the pension for as long and may prefer an option with less risk, such as the Cash option. We generally recommend that members who see their time horizon as likely to be less than 10 years move their pension into a more conservative investment option. You need to be aware that past performance is not necessarily a guide to future performance. Returns like we've been discussing can definitely change depending on market conditions, and members should continue to monitor the performance of their fund.
Michael	Thanks. That has been really helpful. I may think about what I want and come back to you if need more information.

Operator	Sure, Michael. I'm glad I was able to help you. If you have any further questions or there's anything else I can help you with, please let me know.

As this example involves personal advice, the ABC Superannuation Fund needs to have an AFS licence authorising them to provide personal financial product advice: see s911A. In this example, the ABC Superannuation Fund provides personal advice under s945A.

Personal scaled advice

You should make the scope of the advice you are giving clear. In this example, ABC Superannuation Fund makes it clear that the scope of the advice is limited to Michael's interest in that fund. The operator has suggested to Michael that he might want to consider getting advice that looks at his overall financial position.

Michael	Hi. I am Michael Long, a member of the ABC Pension Fund. I am calling because I am wondering how long my pension will last me. I am 68 years old now—should I be doing anything to make my pension last longer?
Operator	I'll take you through how the ABC Pension Account works and give you some recommendations about whether this product suits your needs. You need to be aware though that I can only give you advice about your ABC Pension Account. So if you have another pension fund or are interested in other financial products, you should consider getting personal advice that relates to other products available on the market. Once I've got your information in front of me I'll be able to give you some specific advice on what I think you should do. **[At this point the Operator will perform the appropriate identify checks to confirm that he is speaking with the account holder. The Operator will also confirm that the member has a copy of the current version of the FSG]**
Michael	That's fine.
Operator	Thanks Michael. I've now got your information in front of me: • you're 68 years old; • you have a current balance in your ABC Pension Account of $280,000; • you have elected this year to draw down $15,000 from your account—this is slightly more than the minimum annual draw down from your account, which is 5% of your balance or $14,000; and • you're currently invested in our Balanced option.

This is an example of some of the inquiries that you may make in providing personal advice under s945A. It is not intended as an exhaustive list.

Although you are not required to provide the client with this information, it is better practice to do so.

Operator (cont.)

I can now provide you with advice about your account and how long it may last given your current balance, investment options and draw down patterns.

In order for me to calculate how long your pension will last I need to know:

- how much you plan to withdraw from your account each year for the foreseeable future;
- whether you are likely to withdraw any lump sums in addition to your pension draw down each year (e.g. to cover home renovations or medical expenses); and
- if you are happy with your current investment option. You are currently in the Balanced option, which means X% of your portfolio is invested in shares and property. In recent years, these markets have experienced volatility which means over a 12-month period, this account could reduce by up to X% or, put another way, reduce by $X. If this happens, it would mean that your pension would run out more quickly. Are you comfortable with this?

Michael

I need to continue to draw down around $15,000 but I may have to increase this to keep pace with inflation. I want to draw down extra funds to buy a new car next year, which I expect to cost around $35,000. Also, I'm planning some home renovations in about three years time. I'd like to factor in a withdrawal of around $100,000 to pay for these. I would like you to do the calculation based on my staying in the Balanced option.

Operator

Good. My advice will therefore cover only how long your ABC Pension Account will last, given the information you have provided. As you've said you'd like your annual draw down to increase to keep pace with inflation, I think we should factor in an inflation rate of 3% per annum. I will also include lump sum draw downs of $35,000 next year and $100,000 in three years time, but without any inflation factor.

At present you are invested in the Balanced option, which for the past 10 years has averaged earnings of 7% after fees. It is important to realise that our calculations are based on using a reasonable estimate of average return, which is 7%. However, it is important to understand that the actual returns could vary quite a lot. If the balanced fund does not earn so much or suffers a loss, especially in the early years, then it could make your pension run out much quicker.

Operator (cont.)	Using the 7% as the earnings factor, I calculate that at the proposed withdrawal rate, with an earnings factor of 7%, and with lump sum draw downs of $35,000 next year and $100,000 in three years time, your pension will last you another 15 years, or until 2026 when you are 83 years old. After that year, when you turn 84 in 2027, you will have a remaining balance of $5842.
Michael	I'm worried I might live longer, my father lived to 90.
Operator	Would you consider making smaller draw downs?
Michael	Yes, I had a few options for the car and renovations that were cheaper. How long would my pension last if I took a draw down of $10,000 next year and $35,000 in three years time?
Operator	If you were to take less than your proposed annual draw down, this would result in the pension lasting longer. If inflation increases and you have to withdraw more in pension, this would mean your pension would not last as long. I calculate that if you draw down $15,000 each year (adjusted for inflation) and make the smaller lump sum withdrawals you have mentioned, the account will last for your expected life span, leaving a balance of $22,000 at the end of the year you turn 95. If you want the pension to last beyond 2026, I recommend that you consider this approach.
Michael	I agree this is the best option for me—I would want to ensure my pension lasts until my mid-90s.
Operator	There are a lot of other things you will need to think about that are relevant, such as your other sources of income, your assets and liabilities, providing for your family or dependants or estate planning. You also need to consider how this will affect your taxation position or any Centrelink payments. If you need more information that takes into account all of your personal and financial circumstances, you should consider getting comprehensive personal advice on this issue. I'm now going to forward you a Statement of Advice, outlining what we've discussed and the opinions I have put to you.

The advice in this example contains a lot of information and data. The adviser should check that the client understands the advice, and if it appears that the client is confused about the advice they are receiving further explain the advice as necessary.

Statement of Advice for Michael on how long an account-based income stream product can be expected to last

STATEMENT OF ADVICE

ABC Superannuation Fund

1 July 2011

Michael Long
1 Canberra St
Sydney NSW 2000

Dear Michael

How long your ABC Pension Account may last

You spoke with one of our representatives today about how long your ABC Pension Account could be expected to last.

This advice is provided by XYZ Financial Advisers and is limited to your interest in the ABC Pension Account.

Information about you

- You are aged 68.
- You have a current balance in your ABC Pension Account, an account-based income stream product, of $280,000.
- You wish to draw down $15,000 this year from your account and want to withdraw the same amount each year, but with an increase for inflation.
- You want to withdraw a lump sum of $10,000 next year to purchase a car.
- You want to withdraw a lump sum of $35,000 in three years time to fund home renovations.
- You are invested in the Balanced option of the ABC Pension Account and want to remain in that option.

Our advice

How long the pension account will last will depend on:

- the starting balance;
- the investment earnings of the account, after fees and taxes, which will be influenced by the earnings rate of the investment option you have selected; and
- the amount you choose to draw down each year.

We have calculated how long your pension will last, based on the following factors:

- your current balance of 280,000;
- a net earnings rate of 7% per annum, based on the 10 year average returns of the Balanced option in which you are currently invested;
- a draw down rate of $15,000 for the first year followed by that amount increasing by 3% each following year to take account of our estimate of inflation;
- an expected draw down next year of a $10,000 lump sum to pay for a new car; and
- an expected draw down in three years time of $35,000 to pay for planned home renovations.

Based on your current balance, and an earnings rate of 7%, if you withdraw these amounts, the pension would last until you are 95 years old, with remaining balance of $22,000. It is important to realise that these calculations are based on a reasonable estimate of average return, which is 7%. However, it is important to understand that the actual returns could vary quite a lot. If the balanced fund does not earn so much or suffers a loss, especially in the early years, then it could make your pension run out much quicker.

At present you are 68 and, according to the Australian Life Tables published by the Australian Bureau of Statistics, you have a projected life expectancy of another 16 years. This means that the average Australian male now aged 68 can expect to live until the age of 84. We therefore recommend that you should consider steps to make your account last until at least this age. However, it is important to remember that many Australian males of your age may live much longer. If you only plan for your pension to cover your life expectancy, you have a one-in-two chance of running out of pension.

You need to be aware that this advice is only about your interest in the ABC Pension Fund. If you have other pension funds or are interested in other financial products, you should consider getting personal advice on other products in the market. For advice that covers any or all of the issues outside of the factors affecting how long your ABC Pension account will last, you should seek comprehensive financial advice.

Remuneration and conflicts of interest

If you follow this advice the ABC Pension Fund will receive a monthly management fee of $XX (including GST), which is the management fee for the Balanced option. This is the same fee that you are currently paying.

Should you have any further questions, please phone our call centre on (02) 9999 9999.

Acting on this advice

To act on the advice, just complete the enclosed form and give it to your employer.

Should you have any questions, please phone our call centre on (02) 9999 9999.

Yours sincerely

ABC Superannuation Fund
5 Harbour Street
Sydney NSW 2000

Example 5: Transition to retirement—Commencing a transition to retirement arrangement

In this example, the adviser doesn't need to be licensed because no financial advice is being given.

Factual information

Martin	Hi. I'm Martin Brown, a member of the ABC Super Fund. I'm 60 and considering whether I should be doing anything extra about my super. I'm working full time and I don't want to retire yet. I'm concerned that I've not really accumulated enough in super and I don't have any spare money to put into superannuation. Is there anything I should be doing now that would help?
Adviser	Hi Martin, thanks for calling. One strategy that many people consider is a transition to retirement strategy, which can help you accumulate additional super. Would you like some more information on this strategy?
Martin	That would be great, thanks.
Adviser	A transition to retirement arrangement, also known as TTR, is an arrangement by which some people can boost their super without reducing their income. Just so that you know up-front, the information I'm about to give you is factual information only about TTR. I'm unable to give you any financial advice about what you should do at this stage. If you would like some personal advice we can set up a meeting for you to come into our office and discuss this further.
Martin	That's fine.
Adviser	TTR arrangements allow individuals who are between 55 and 64 years of age to access their super in the form of an income stream without them having to retire or leave their job. This can assist in managing the transition out of paid employment. A person can also use it to boost their super by continuing to work full time and make salary sacrifice contributions, which could result in them receiving the same take-home income, saving tax and increasing their super.

It's good practice to be up-front about the service you are offering—are you giving factual information or advice? In this example, the adviser clearly tells Martin up-front that they will not be giving any financial advice.

This adviser is giving factual information only because:

- the information can be objectively determined as being accurate; and
- the communication doesn't contain a recommendation or statement of opinion that is intended to influence Martin.

Adviser (cont.)	For example, the ABC Pension Account offers TTR. For an account-based income stream TTR product, a minimum of 4% and a maximum of 10% of the account balance must be withdrawn each year. The TTR pension cannot be converted to a lump sum until a condition of release occurs, such as reaching 65 years of age. If you're interested in more information about TTR, I suggest you have a look at the ABC Super Fund website or at the PDS, which I can send you. Or you could come in for a chat.
Martin	Thanks, that's given me a good overview. I'll have a look at the information on the website and give it some more thought.
Adviser	Great. Please give us another call if you would like any further information.

General advice

Martin	Hi. I'm Martin Brown, a member of the ABC Super Fund. I'm 60 and considering whether I should be doing anything extra about my super. I'm working full time and I don't want to retire yet. I'm concerned that I've not really accumulated enough in super and I don't have any spare money to put into superannuation. Is there anything I should be doing now that would help?
Adviser	Hi Martin, thanks for calling. It sounds like you are concerned about not having enough super when you retire. One strategy that many people consider is a transition to retirement strategy, which can help you accumulate additional super. Would you like some more information on this strategy?
Martin	Thanks, that would be great.
Adviser	A transition to retirement arrangement, also known as TTR, is an arrangement by which some people can boost their super without reducing their income. Just so you know up-front, I can tell you what we generally recommend for our clients but this information does not consider your personal financial circumstances. If you are after personal advice, we can arrange for you to come in and have a meeting.

You need to be up-front about the service you are offering—are you giving factual information or advice? In this example, Martin is clearly told up-front that he will not be given personal advice.

Martin	Okay, that's fine.
Adviser	A number of pension funds, including ABC Pension Fund, offer a TTR pension product. For typical members who are working full time, and who want to boost their super, we recommend transferring most of their super into an account-based pension. Members of ABC Super can salary sacrifice a large part of their income into super, which saves income tax. Although salary sacrifice reduces the amount of take-home pay, the member can then compensate for this by withdrawing an amount from their pension fund. Members must withdraw between 4% and 10% of the account balance. The less the member withdraws from the pension account, the more the member will eventually have in their super. The benefits of TTR increase when a member turns 60, because TTR payments will be tax free. Up until then TTR payments are generally taxable income, but a 15% offset applies to reduce the amount of tax on them. In addition, when you set aside funds for a TTR pension, earnings on the funds held for the pension are not taxed. We recommend that our clients who want to keep working after they reach 55, and who want to boost their super but can't afford a reduction in income, consider a TTR arrangement. If you would like advice about how this strategy would apply to your circumstances, we can arrange for you to come in and meet with an adviser.
Martin	Thanks, that has been a big help. I'll do some reading on it and get back to you if I want to get some more advice on it.

Personal advice

Martin	Hi. I'm Martin Brown, nice to meet you in person. As we discussed briefly on the phone, I'm a member of the ABC Super Fund. I'm 60 and considering whether I should be doing anything extra about my super. I'm working full time and don't want to retire yet.

Martin (cont.)	I'm concerned that I've not really accumulated enough in super but I don't have any spare money to put into superannuation. Is there anything I should be doing now that would help?
Adviser	Hi Martin, thanks for taking the time to come in. One strategy that many people consider is a transition to retirement strategy, which can help you accumulate additional super. Would you like some more advice about implementing this strategy?
Martin	Yes, that would be great.
Adviser	I'll take you through some information on a transition to retirement arrangement, known as TTR. It is intended to enable people aged 55–64, who are still working, to benefit by paying more into super. I can give you some recommendations about whether TTR would be suitable for you. **[At this point the Adviser will also confirm that Martin has a copy of the current version of the Adviser's FSG and a PDS that covers the ABC TTR Pension Account]**
Martin	Okay, that sounds good.
Adviser	Are you happy to stay with ABC Super for your TTR arrangements, or would you like me to also consider other funds?
Martin	I'm happy with ABC Super and would want any TTR strategy to be within ABC Super.
Adviser	That's fine Martin. I will only give you advice relating to your current super fund account and whether it would be advisable for you to transfer that superannuation interest into an account-based income stream product, the ABC TTR Pension Account, to enable you to commence a TTR arrangement. Now when we spoke over the phone last week, you told me that: • you're 60 years old; • you have a current super balance of $220,000; • you are currently invested in the Balanced option of the ABC Super Fund; and

This is an example of some of the inquiries that you may make in providing personal advice under s945A. It is not intended as an exhaustive list.

Although you are not required to provide the client with this information, it is better practice to do so.

Adviser (cont.)	• 100% of your $220,000 account balance is from employer contributions and was subject to tax at 15% when received by the superannuation fund. I need to ask you some additional questions in order to advise if TTR is suitable for you: • Do you want to continue working full time and how long do you intend to continue doing so? • What is your current salary? • Are you liable for the flood levy? • Do you have the ability to save a certain amount each month? • You are currently in the Balanced option, which means X% of your portfolio is invested in shares and property. In recent years, these markets have experienced volatility that means over a 12-month period, this account could reduce by up to X% or more or, put another way, reduce by $X or more. Are you comfortable with the Balanced option for your investment? • Would you be happy to transfer nearly all of your super with ABC Superannuation Fund into a pension account to effect a TTR arrangement? Do you feel that you might need to draw down a lump sum from your super in the next few years?
Martin	I like working and intend to continue working full time at least until I'm 65. Also: • my current salary is $110,000 a year and my taxable income is the same. I need that entire amount to live on for the next few years so I don't want to consider reducing my take-home pay; • I am not liable for the flood levy; • I'm happy to be invested in the Balanced option; • I don't mind transferring all of my ABC Super account balance into a pension account if that would benefit me; and • As long as I can keep receiving the net income that I'm getting now, there should be no need to withdraw a lump sum till I am 65.
Adviser	Right. I will calculate whether you will be better off transferring all or part of your ABC Super balance to an account-based income stream product, the ABC TTR Pension Account.

In this example, we have not included in the calculation one-off Government payments (such as the flood levy).

Adviser (cont.)	Where you may benefit is when your employer pays some of your salary into super, rather than to you. This happens before tax is taken out and therefore reduces your salary so that you pay less tax. It's called salary sacrifice. As you are on a relatively high salary you are likely to benefit this way.
Martin	That sounds good. I know my employer helps people arrange for extra super contributions by salary sacrifice.
Adviser	I ran your figures through our calculator with the main criteria being that you want exactly the same take-home income that you are receiving now. The scenario provided by our calculator is as follows: • You salary sacrifice a large amount into super—the amount I have input is $34,450. • You put almost all of your superannuation balance into one of our account-based pension account and draw down 10% of your superannuation balance or an amount of $21,500. • Using this strategy, you pay $12,952 less income tax on your salary. Against this, 15% tax will be applied on the extra contributions you make to super, but this is outweighed by the reduction in income tax and you will be $9137 better off. This extra $9137 goes into your super while you are still receiving exactly the same take-home pay that you were without the TTR strategy. • This is based on the current rules staying in place, since the $21,500 pension amount would be tax free. Another advantage is that earnings on the money in the pension account are tax free.
Martin	Are there any other things I need to know about using this strategy?
Adviser	You need to check that if you salary sacrifice more, your employer will not reduce the superannuation contributions they would otherwise make for you.

The advice in this example contains a lot of information and data. The adviser should check that the client understands the advice, if it appears that the client is confused about the advice they are receiving.

Adviser (cont.)

A downside is that you are committed to drawing down between 4% and 10% of the balance each year until you retire or another condition of release is met. There have been some temporary reductions in the minimum amount, but you should not rely on them applying in the future. The conditions of release are set out in our PDS and include stopping work after you turn 60 or suffering permanent incapacity or a terminal medical condition.

So, for example, if you found that you didn't need so much take-home income and wanted to increase the amount going into superannuation, you could still not avoid taking at least 4% of the amount in the pension account out each year.

In addition, you have to pay fees to enter a pension account. The ABC Pension Account charges an entry fee of $100 to establish a TTR pension and an administration fee of $10 per payment.

Another important thing is that at least once a year you need to review the level of salary sacrifice you undertake and the amount of pension you want to withdraw within the levels permitted. In particular, you have to ensure that the amount of any salary sacrifice and any amount paid by your employer, such as the usual 9% contribution, doesn't exceed the limit on your contributions that are made before tax. There is a limit on what are called concessional contributions, and this may be affected by the amount you have in your superannuation, including amounts in pension accounts. In addition, tax rates and other rules can change. Further, depending on earnings in the pension account and the amount you withdraw, the minimum and maximum amount you have to take in pension will change.

Please note that the advice I have given you is based on the information you have given me. It does not take into account your other personal circumstances, including any income sources or assets you have outside of ABC Superannuation Fund. It also does not take into account any other tax consequences or the affect on any Centrelink payments that might result from you commencing a TTR strategy.

Transition to retirement advice can be complex and, in order for you to look at how a TTR could fit into a more comprehensive approach to your finances. We can set up a further meeting if you would like to take this approach.

I will send you a Statement of Advice outlining what we've discussed and my recommendations.

Statement of Advice to Martin on whether he should commence a TTR strategy

STATEMENT OF ADVICE

XYZ Advisers

This example is quite long. Subheadings are used to make it clearer. You're not required to use these subheadings in all SOAs about transition to retirement. You should use your discretion to include subheadings that will help the client understand the advice you are giving in each situation.

1 July 2011

Martin Brown
1 Brisbane St
Brisbane QLD 4000

Dear Martin

Whether you should commence a transition to retirement (TTR) strategy

You asked us for advice about commencing a TTR strategy.

This advice is provided by the XYZ Advisers and is limited to your interest in the ABC Superannuation Fund and the ABC Pension Account.

Information about you

- You are 60 years old.
- You like working and intend to continue working until you're at least 65.
- Your current salary is $110,000 per year, and you are not liable to pay the flood levy.
- You do not want to reduce your take-home salary.
- You have a current super balance of $220,000.
- 100% of your $220,000 account balance has already been taxed when it was received by the ABC Superannuation Fund.
- You are willing to transfer all of your current super balance across to an account-based income stream product, such as the ABC Pension Account.
- You are currently invested in the Balanced option of the ABC Superannuation Fund and would like to remain in the Balanced option if your funds are transferred to the ABC Pension Account.
- You are happy with ABC Superannuation Fund and do not want to consider any pension fund other ABC Pension Account for TTR.
- You do not anticipate wanting to withdraw a lump sum from your super before you stop work or before you turn 65.
- Your purpose in considering TTR is to increase the amount you have in super without reducing your take-home pay.

Our advice

Even small differences to the amount you place into super can really boost your final superannuation balance. One way to boost your super is to pay a part of your pay into super (this is called 'salary sacrifice') and make up the difference by drawing down income from an account-based income stream product like the ABC Pension Account. This gives you the benefit of reducing your taxable income so you pay less tax even though you are still receiving the same take-home pay.

The following table sets out how the TTR strategy would benefit you:

Your TTR strategy

	Current ($)	TTR strategy ($)
Gross income	110,000	110,000
Minus salary sacrifice	0	-34,450
TTR Pension income	0	21,500
Taxable income	101,000	75,550
Minus income tax and Medicare levy	-30,300	-17,348
Take-home pay	**79,700**	**79,700**
Super contributions: employer*	9,900	9,900
Super contributions: salary sacrifice	0	34,450
Investment returns**	15,400	15,400
Minus contributions tax	-1,485	-6,653
Minus TTR pension draw down	0	-21,500
Minus tax on fund earnings**	-1,386	-32
Net gain in super	**22,429**	**31,566**
Total tax paid	33,171	24,032
Combined tax savings		**9,137**

* The table shows the same employer contributions for your current situation and for your TTR Strategy. Your employer does not have to pay super on amounts you salary sacrifice; however, most employers will continue to pay super on your gross earnings.

** The table shows investment returns based on earnings of 7% and an average tax rate of 9% on super fund earnings and disregards returns on money invested during the year.

If you salary sacrifice $34,450 into super and draw down $21,500 from your pension fund, you will still have a take-home pay of $79,700 (or $3065 per fortnight). Your tax will be lower by $9137, because you pay less tax on your reduced salary and as you are over 60 you do not pay tax on your TTR income ($21,500). The tax you save will be contributed to your super instead. Under this strategy, you will be better off by $9137 in the year you commence the TTR strategy.

The main downside to commencing a TTR strategy is that you are committed to withdrawing between 4% (subject to temporary exceptions) and 10% of the balance each year until you meet a condition of release, which is likely to require you to leave your job. Conditions of release also include suffering permanent incapacity or a terminal medical condition. We recommend that you read the PDS for details on all conditions of release and when these apply.

Further, I note that while this strategy may allow a net increase in your superannuation, it is likely only going to make a moderate difference to your overall account balance when you retire. If you want to significantly increase your balance you will need to consider other options, such as reducing your living expenses or working longer.

Recommendation

We recommend that you salary sacrifice $34,450 into super and draw down $21,500 from your pension fund, you will still have the same take-home pay of $79,700. Overall you will pay $9137 less tax, which will be contributed to your super instead. Under this strategy you will be better off by $9137 in the year you commence the TTR strategy.

Please note that this advice is based on the information you have given me and that it only relates to your interest in the ABC Superannuation Fund and the specific personal circumstances that affect how much income you will receive from your work salary and from your pension draw downs and how much of that money will go into super. It does not take into account your other personal circumstances, including any income sources or assets you have outside of your ABC Superannuation Fund or Pension Account. It also does not take into account any tax consequences or the affect on any Centrelink payments that might result from your having commenced a TTR strategy.

Consequences of following this advice

If you follow this advice you will be charged $100 for the establishment of a TTR arrangement by the ABC Pension Fund. You will also have to pay a fee of $10 each time you receive a pension payment. These fees will go to ABC Trustees. The monthly fee might increase in future. As you need to keep your ABC Superannuation Fund account open to receive your salary-sacrifice payments and to maintain continuation of your group insurance cover, you will continue to pay management fees of $100 per year on your ABC Superannuation Fund account. A significant benefit of transferring most of your super fund balance to the ABC Pension Account is that you will be paying no tax on pension account earnings, rather than the 15% tax you pay on super fund earnings.

You should also check that the reduction in your salary through salary sacrifice will not cause your employer to reduce their contributions to match your lower salary.

Acting on this advice

To act on this advice, please complete the attached form to transfer $215,000 of your ABC Superannuation Fund balance to the ABC Pension Account and send it to us. This will leave $5000 in your ABC Superannuation Fund to keep it open to receive your salary-sacrifice contributions and to retain your group insurance cover.

Should you have any further questions, please phone me on (02) 9999 9999.

Yours sincerely

XYZ Advisers
5 Harbour Street
Sydney NSW 2000

As the adviser has recommended that Martin dispose of part of his ABC Superannuation Fund interest in order to acquire an interest in the ABC Pension Fund, disclosure in the SOA is subject to the switching provisions in s947D of the Corporations Act. This requires the SOA to include all fees and charges relating to the switch as well as any significant consequences that may result.

Example 6: Nomination of beneficiaries

In this example, the operator doesn't need to be licensed because no financial advice is being given.

You need to be up-front about the service you are offering—are you giving factual information or advice? In this example, the operator clearly tells Henrietta up-front that they will not be providing advice.

This example contains factual information only because:

- the information is objectively ascertainable; and
- the answer to the query doesn't contain a recommendation or statement of opinion that is intended to influence Henrietta.

Factual information

Henrietta	Hi, this is Henrietta Jones. I'm ringing to get a bit of advice. I've recently remarried and I want my new husband to get all my super if I die. What should I do?
Operator	This is a common issue that is raised by members when they remarry, and it's good to see you're giving some thought to this. Henrietta, I can give you some factual information about how you can nominate beneficiaries for your ABC Super Fund, but I can't give you any advice about what action you should take.
Henrietta	Okay, that's fine.
Operator	ABC Superannuation Fund has different options you can consider if you want to nominate who gets your super if you die. One option is to make a non-binding nomination of beneficiaries. While this is a guide to the trustee as to your wishes, the trustee is not required to follow this nomination. If you want more certainty about who will receive your ABC Super balance when you die, you can make a binding death benefit nomination. When this is done, the trustee must follow your wishes, so long as the nomination is a valid one. Binding nominations expire after three years and have to be renewed if you want them to continue. We have a fact sheet on nominating beneficiaries—this runs through a range of information, such as the people you can nominate as your beneficiaries. Would you like me to email you a copy?
Henrietta	Thanks. That would be great.
Operator	Okay, if you have any more questions please give me a call back.

> In this example the operator doesn't need to be licensed because they are relying on the exemption for super fund trustees to give general advice without an AFS licence where that advice is about their own super fund: reg 7.1.33H.

> You need to be upfront about the service you are offering. In this example, the operator clearly tells Henrietta upfront that they will not be providing personal advice.

> ABC Superannuation Fund needs to provide this warning, because they are relying on reg 7.1.33H (they are not licensed to provide general advice about their fund).

General advice

Henrietta	Hi, this is Henrietta Jones. I'm just ringing to get a bit of advice. I have recently remarried and I want my new husband to get all my super if I die. What should I do?
Operator	This is a common issue that is raised by members when they remarry, and it's good to see you're giving some thought to this. So, Henrietta—I can tell you what we generally recommend for our members in relation to nomination of beneficiaries, but this information does not consider your personal circumstances. If you would like personal advice we can refer you to a financial adviser. I also need to mention that ABC Superannuation Fund is not licensed to give you advice about the fund, so we recommend that you get a PDS and read it before making a decision. We can send you one in the mail, or you can find it on our website.
Henrietta	Okay, that sounds fine.
Operator	ABC Superannuation Fund has different options you can consider if you want to nominate who gets your super if you die. You can make a non-binding nomination of beneficiaries. While this is a guide to the trustee as to your wishes, the trustee is not required to follow this nomination. If you want more certainty about who will receive your super funds when you die, you can make a binding death benefit nomination. When this is done, the trustee must follow your wishes, so long as the nomination is a valid one. Binding nominations expire after three years and have to be renewed if you want them to continue. We typically recommend that members who want to achieve certainty as to who will receive their super funds when they die should complete a binding death benefit nomination. However, there are other options for making a nomination. I can send you some further information in the mail about this or you can visit our website.

Operator (cont.)	We recommend members should regularly review their nomination to ensure it is kept valid and up-to-date and correctly reflects their wishes. The choice that is most appropriate depends on their particular personal and financial circumstances. Taxation is also a relevant consideration and we recommend that members seek specialised advice about that. We also recommend that members obtain advice about their will. Please note, the advice I have provided today is general and may not be right for you.
Henrietta	Okay, thanks, that's been really helpful. I might do some more research and come back to you if I decide to nominate my beneficiaries.
Operator	Thanks for your call Henrietta. I'm glad I was able to help you. If you have any further questions please let me know.

As this example involves personal advice, the ABC Superannuation Fund needs to have an AFS licence authorising them to provide personal financial product advice: see s911A. In this example, the ABC Superannuation Fund can provide personal advice under s945A.

Personal advice

Henrietta	Hi, this is Henrietta Jones. I'm just ringing to get a bit of advice. I've recently remarried and I want my new husband to get all my super if I die. What should I do?
Operator	Okay Henrietta, can you just answer some questions to confirm your identity? **[At this point, the Operator will perform the appropriate identity checks to confirm that they are speaking with the account holder. The Operator will also confirm that the member has a copy of the current version of the FSG]** Thanks, I'm just retrieving your member information now. Once I've got your information in front of me I'll be able to give you some specific advice on what I think you should do. You need to be aware, though, that I can give you advice in relation to the nomination of beneficiaries for your ABC Superannuation Fund, but I can't give you advice about other matters, such as nominating beneficiaries for any benefits you have with other super funds or about wills. I recommend that you seek advice about these issues from an appropriate source.

The operator makes it clear in this example that the scope of the advice is limited to the nomination of beneficiaries within ABC Superannuation Fund. The operator has suggested to Henrietta that she may want to consider getting further advice that considers other issues she has raised.

Henrietta	Okay, that's fine.
Operator	Thanks Henrietta. Okay, I've now got your information in front of me: • you have a current super balance of $620,000; • you have not nominated any beneficiaries; and • you want your husband to get your ABC Super Fund benefits in the event of your death.
Henrietta	Yes, that's right.
Operator	ABC Superannuation Fund has a number of different options you can consider if you want to nominate who gets your super if you die. You can make a non-binding nomination of beneficiaries. While this is a guide to the trustee as to your wishes, the trustee is not required to follow this nomination. If you want more certainty about who will receive your super funds when you die, you can make a binding death benefit nomination. When this is done, the trustee must follow your wishes, so long as the nomination is a valid one. Binding nominations expire after three years and have to be renewed if you want them to continue. If you make a binding death benefit nomination leaving your entire super to your current husband, the funds will be paid directly to him and will not form part of your estate.
Henrietta	I would want to choose the option that gives me the greatest certainty that my new husband will get my super.
Operator	I recommend that you complete a binding death benefit nomination which leaves 100% of your super funds to your current husband. This will have the advantage of the funds passing directly to your current husband and your former husband being unable to challenge this through a claim against your estate.
Henrietta	That's exactly what I want.
Operator	I need to point out that in giving this advice I considered only how you could ensure that your money in the ABC Superannuation Fund will go to your current husband if you die. I did not consider any estate planning issues outside of this.

Operator (cont.)	If you need further information before making a decision, you should consider the option of getting further, more detailed advice on this issue. Taxation can also be a relevant consideration, although not in this particular instance. I also recommend that you consider seeking advice in relation to your will if you have other assets. I'm now going to forward you a short Statement of Advice, outlining what we've discussed and my recommendations.
Henrietta	Thanks very much for that.

Statement of Advice to Henrietta on the nomination of beneficiaries

STATEMENT OF ADVICE

ABC Superannuation Fund

1 July 2011

Ms Henrietta Jones
1 Sydney Road
Sydney NSW 2000

Dear Henrietta

Nomination of beneficiaries

You asked for advice today about nominating beneficiaries to your ABC Superannuation Fund account. This advice is limited to nominating your current husband as your beneficiary.

Information about you

- You have not nominated any beneficiaries.
- You have recently remarried.
- You want your funds in the ABC Superannuation Fund to go solely to your current husband in the event of your death.

Our advice

To achieve certainty in relation to the distribution of your superannuation funds, I recommend that you make a binding death benefit nomination. In the case of binding death benefit nominations, the trustee must follow your wishes, so long as the nomination is a valid one and the nomination has not expired.

There is a risk that if your circumstances change (for example, you have children), you may not update your binding nomination. If this happened, the trustee would have to act on your binding nomination even though it is not what you would have wanted.

To achieve the certainty you want, I recommend that your binding death benefit nomination should leave 100% of your super funds to your current husband. This will have the advantage of the funds passing directly to your current husband and your former husband or others being unable to challenge this through a claim against your estate.

I also recommend that you regularly review your nomination to ensure it is valid, up-to-date and correctly reflects your wishes. Binding nominations expire after three years and have to be made again if you want them to continue.

Remuneration and conflicts of interest

This advice was provided at no additional cost to you. It is part of our overall member service. There is no charge payable to the ABC Superannuation Fund should you decide to make a binding death benefit nomination.

Acting on this advice

To act on the advice, please complete the enclosed Nomination of Beneficiary form and forward it to the ABC Superannuation Fund.

Should you have any questions, please phone our call centre on (02) 9999 9999.

Yours sincerely

ABC Superannuation Fund
5 Harbour Street
Sydney NSW 2000

Example 7: Superannuation and Centrelink payments—Effect on aged pension of accessing funds via super or mortgage redraw

In this example, the operator doesn't need to be licensed because no financial advice is being given.

Factual information

Jim	Hi, I'm Jim Jones and I'm a member of the ABC Pension Fund. I need $25,000 to update my kitchen. I don't have any available cash and I'm wondering whether I should make a lump sum withdrawal from my pension fund or whether I should use my home loan redraw facility to maximise my aged pension entitlements. I'm 67. Can you help?
Operator	Hi Jim. I'm happy to answer your questions but I can only give you factual information at this time. I'm unable to give you financial advice about what you should do.
Jim	That's fine. I just need some basic information at this point.
Operator	The aged pension is means tested. Both income tests and assets tests are used by Centrelink, and Centrelink will use whichever test will result in a lower pension being paid. For example, when someone has a higher level of assets than income, the assets test will usually be applied. The value of a home and any mortgage over it are not assessable under the assets test. Therefore it does not affect aged-pension entitlements if you redraw funds off your mortgage. But if you use a mortgage redraw facility you will have to make additional repayments to cover the extra amount borrowed. The balance of an account-based income stream product, such as your ABC Pension Account, is likely to be used in calculating the amount of a part pension you are entitled to under the assets test. A reduction in the balance is likely to result in a higher aged-pension entitlement. Note that while the aged pension entitlement is likely to be higher if the money is drawn from the pension account, there is a long-term disadvantage because drawing money from the pension account will mean that the account is likely to be exhausted sooner than it would otherwise be.

You should be up-front about the service you are offering—are you giving factual information or advice? In this example, the operator clearly tells Jim up-front that they will not be giving any financial advice.

You can give factual information to a caller even though you know some personal information about them. In this example, ABC Superannuation Fund has personal information about Jim as a member of their fund, but this doesn't stop the operator from giving Jim factual information.

This operator is giving factual information only because:

- the information can be objectively determined as being accurate; and
- the communication doesn't contain a recommendation or statement of opinion that is intended to influence Jim.

Jim	Thanks for that. It's given me a good idea of how these things work. I'll get back to you if I need more information.

In this example, ABC Superannuation Fund is not licensed because they are relying on the exemption for super fund trustees to give general advice without an AFS licence where that advice is about their own super fund: reg 7.1.33H.

General advice

Jim	Hi, I'm Jim Jones and I'm a member of the ABC Pension Fund. I need $25,000 to update my kitchen. I don't have any available cash and I'm wondering whether I should make a lump sum withdrawal from my pension account or whether I should use my home loan redraw facility to maximise my aged pension entitlements. I'm 67. Can you help?
Operator	Hi Jim. I'm happy to answer your questions but I'm only authorised to give you general advice. I can tell you what we'd generally recommend to our members but I can't give you personal financial advice that takes into account your personal circumstances. If you want personal advice, we can refer you to a financial adviser. I also need to mention that ABC Superannuation Fund is not licensed to give you advice about the fund, so we recommend that you get a PDS and read it before making a decision. We can send you one in the mail, or you can find it on our website.
Jim	That's okay.
Operator	The aged pension is means tested. Both income tests and assets tests are used by Centrelink, and Centrelink will use whichever test will result in a lower pension being paid. For example, when someone has a higher level of assets than income, the assets test will usually be applied. Do you know which test your are currently assessed under?
Jim	I'm currently receiving a part aged pension based on an assessment under the assets test. I'm single, own my own home and have no other income.
Operator	The value of a home, and any mortgage over it, are not assessable under the assets test. Therefore, when someone borrows against home mortgage redraw facility it does not affect their aged pension entitlements.

You need to be up-front about the service you are offering—are you giving factual information or advice? In this example, Jim is clearly told up-front that he will not be given personal advice.

ABC Superannuation Fund needs to provide this warning because they are relying on reg 7.1.33H (they are not licensed to provide general advice about their fund).

Operator (cont.)	But if you use a mortgage redraw facility you will have to make additional repayments to cover the extra borrowed. Furthermore, the balance of an account-based income stream product, such as the ABC Pension Account, will be used in calculating the amount of a part pension the member is entitled to under the assets test. A reduction in the balance is likely to result in a higher aged pension entitlement. We'd therefore recommend to our members to whom the assets test applies, and who need funds to meet a large expense, that they are generally likely to be better off using funds from their pension account than from their mortgage redraw facility. Note that while the aged pension entitlement is likely to be higher if the money is drawn from the pension account, there is also a long-term disadvantage in that drawing money from the pension account will mean that the account is likely to be exhausted sooner than it would otherwise be.
Jim	Thanks for that. It's given me a good idea of how these things would affect someone in my position. I'll get back to you if I need more personalised information.

As this example involves personal advice, the ABC Superannuation Fund needs to have an AFS licence authorising them to provide personal financial product advice: see s911A. The ABC Superannuation Fund provides personal advice under s945A.

Personal scaled advice

Jim	Hi, I'm Jim Jones and I'm a member of the ABC Pension Fund. I need $25,000 to update my kitchen. I don't have any available cash and I'm wondering whether I should make a lump sum withdrawal from my pension fund or whether I should use my home loan redraw facility to maximise my aged pension entitlements. I'm 67. Can you help?
Operator	Hi Jim. Yes, I think I can help you. **[At this point, the Operator will perform the appropriate identity checks to confirm that he is speaking with the account holder. The Operator will also confirm that the member has a copy of the current version of the FSG]** Let me just get your details up in front of me. Then I'll be able to give you specific advice on which option would be better for you in terms of the effect on your pension.

In this example, ABC Superannuation Fund makes it clear that the scope of the advice is limited to Jim's the options that Jim has requested advice on.

This is an example of some of the inquiries that you may make in providing personal advice under s945A. It is not intended as an exhaustive list.

The financial adviser has performed calculations to show that the income test will have no effect on the client's entitlement to the part aged pension(i.e. under the income test the full aged pension is available, and because that entitlement is greater than that under the assets test, it is the assets test that will apply). The adviser does not discuss the detail of the calculations in the conversation with the client but has taken steps to be sure that it is the assets test that will apply.

Operator (cont.)

I will confine my advice to looking at the two options you have identified.

You are 67 and started your pension in 2009 at age 65 with $240,000. You have a balance of $260,000 in your ABC Pension Account, an account-based income stream product. You are currently drawing the minimum amount of 5% of the balance per year.

I have some more questions for you:

- Do you have any assessable assets other than your pension account?
- What income do you have besides your superannuation pension and any aged pension you current get?
- Are you single or married?

Jim

I'm single. I'm currently receiving a part aged pension of $403.53 a fortnight, based on an assessment under the assets test. My entitlement at the moment is based on my assessable assets outside of super being $100,000, none of which I can use to access funds. I don't have any other income.

Operator

If you use your home redraw facility you will not alter your current aged pension entitlement. You will owe more money but you can't deduct this in working out your assets for the assets test.

If you draw the funds from your pension account you will reduce the level of assets you are treated as holding and will therefore be entitled to a higher part pension under the assets test.

So, your assessable assets are your pension fund balance plus $100,000—therefore, $360,000. If you use the funds from your pension account, your balance and your level of assessable assets will be reduced by $25,000.

I calculate that if you draw down $25,000 from your pension account, your part pension will be $441.03 per fortnight, which is an increase of $37.50.

You need to remember that drawing the funds down from you pension account will mean that the pension will not last as long. Do you want me to calculate the difference in how much sooner it will be exhausted if you draw down the $25,000?

Jim

No, I'm not worried about that right now.

Operator	Another aspect you will have to consider is how much extra interest you would pay if you used your mortgage redraw account, and compare this to how much you may lose from getting less earning in your pension account because the balance is lower. Now, the calculations I have done are based only on the current rules for superannuation and pension entitlements and these could change. However, in my opinion, looking at the options in terms of which will result in you getting more aged pension, making a lump sum withdrawal from your superannuation would be better. I will send you a Statement of Advice that sets out the advice I have just given you.
Jim	Thanks for that. I'll look forward to receiving it.

Statement of Advice to Jim on the effect on his aged pension of accessing funds via super or mortgage redraw

STATEMENT OF ADVICE

ABC Superannuation Fund

1 July 2011

Mr Jim Jones
1 Martin Place
Sydney NSW 2000

Dear Jim

Effect on your aged pension of accessing funds via super or mortgage redraw

You asked for advice today about whether you should pay for your home renovations from your pension fund or from your home mortgage redraw facility. This advice is limited to issues specifically relevant to the question that you have asked us, which is which of two options would be better for you in terms of the effect on your aged pension entitlement.

Information about you

- You are 67 years of age and single.
- You started your ABC Pension Account, an account-based income stream, in 2009 at age

65 with $240,000.

- You currently have a balance $260,000 in your ABC Pension Account and are drawing the minimum annual amount of 5% of the balance of your account.
- You have $100,000 in assets outside of your ABC Pension Account but no available cash.
- You have no income outside of your ABC Pension Account draw down and your part aged pension entitlement, which is currently $403.53 per fortnight.
- Your objective is to access $25,000 from either your pension account or your mortgage redraw facility, whichever will enable you to receive the higher entitlement to an aged pension.

Our advice

We recommend that you draw down a lump sum from your ABC Pension Account to fund the $25,000 you need for home renovations. The reason we recommend this is that, according to our calculations, if you use funds from your pension account, you will reduce the amount of your assets that are assessable under the Centrelink assets test and will be entitled to a pension of $441.03 per fortnight, which is $37.50 more than you are receiving now. As you have no other sources of income, you will continue to be assessed under the Centrelink assets test rather than the income test.

If you were to use funds from your home mortgage redraw facility, your aged-pension entitlement would not alter but you would have to make payments into the mortgage account to repay the additional $25,000 borrowed.

You should be aware that a consequence of drawing the funds from your pension account is that your pension will not last as long as it otherwise would have. One way of overcoming this would be to reduce your pension slightly, as the minimum required draw down will be based on a lower balance.

This advice does not take into account any of your personal circumstances outside of those listed in this Statement of Advice and those directly relevant to determining whether you would receive a higher aged pension entitlement from accessing the $25,000 from your ABC Pension Account or your mortgage redraw facility.

Remuneration and conflicts of interest

This cost of this advice is $XX. There is also a charge for each lump sum draw down of $XX. The annual management fee payable on your ABC Pension Account will not change.

Acting on this advice

To act on the advice, please complete the enclosed draw down form, requesting a lump sum draw down of $25,000, and forward it to the ABC Pension Account.

Should you have any questions, please phone our call centre on (02) 9999 9999.

Yours sincerely

ABC Pension Fund
5 Harbour Street
Sydney NSW 2000

Example 8: Single issue advice—Paying a windfall into super or mortgage

In this example, the operator doesn't need to be licensed because no financial advice is being given.

You need to be up-front about the service you are offering—are you giving factual information or advice? In this example, the operator clearly tells Jack up-front that they will not be giving any financial advice.

You can give factual information to a caller even though you know some personal information about them. In this example, ABC Superannuation Fund has personal information about Jack as a member of their fund, but this doesn't stop the operator from giving Jack factual information.

Factual information

Jack	Hello, my name is Jack Johnson, and I'm 36. My grandfather has recently passed away and he left me $40,000 in his will. I would be interested in discussing whether it would be best to pay it off my mortgage or invest it in superannuation.
Operator	Certainly Jack. I am happy to answer your questions, but I can only provide you with factual information at this time. I'm unable to give you financial advice about what you should do.
Jack	That's fine.
Operator	How effective it is to pay off the mortgage depends on a number of factors, although it is worth considering whether to pay off the mortgage. Depending on your age and individual financial circumstances, you may actually achieve more with this money if you were to invest in other ways.
Jack	What can you tell me about paying off the mortgage?
Operator	I will focus on the most common type of mortgage, which is the variable rate mortgage. The standard variable interest rate is around 7.80%, although the actual rate varies between mortgages. By paying a lump sum into a variable rate mortgage, you are reducing the amount of principal owed on the loan and effectively the amount of interest you have to repay the lender. This means that even if you only maintain the same repayments as before you deposit the lump sum, more of each repayment will go to paying off the principal since there is less interest to pay. This means that you can save a lot of money and potentially years ahead of schedule.
Jack	That sounds great. How about investing the money into super?

This operator is giving factual information only because:

- the information can be objectively determined as being accurate; and
- the communication doesn't contain a recommendation or statement of opinion that is intended to influence Jack.

Operator	Depending on how long you have worked and how much money you have accumulated in superannuation, your inheritance of $40,000 could provide a significant boost to your retirement savings. There are some excellent calculators available on our website to show you just how much of a difference $40,000 can make to your retirement lifestyle. By making an additional contribution to your super you may be surprised how much extra super will be available to you on your retirement. However, there are some things you have to be aware of when making further contributions to super. There are limits on the amount of money that can be put into superannuation without paying extra tax. In particular you can only contribute before tax under a salary-sacrifice arrangement up to $25,000 a year at the moment, and the amount contributed by your employer must be counted towards that. People who earn less than $61,920 per annum should be eligible for the Government co-contribution. They can receive up to $1,000 extra from the Government depending on their level of income for any financial year. Of course, the more you earn, the less you will entitled to receive. Anyone who earns over $61,920 will not be eligible to receive this co-contribution.
Jack	That sounds really interesting. I guess I have to weigh up my options, as this money is a surprise and I really want to think about how best to use it.
Operator	Of course. Would you like me to send out some information and you can discuss with your family?
Jack	I would appreciate that. Thanks for your time today. I may be in touch in the future.

General advice

In this example, ABC Superannuation Fund is not licensed because they are relying on the exemption for super fund trustees to give general advice without an AFS licence where that advice is about their own super fund: reg 7.1.33H.

Jack	Hello, my name is Jack Johnson, and I'm 36. My grandfather has recently passed away and he left me $40,000 in his will. I would be interested in discussing whether it would be best to pay it off the mortgage or invest this money in superannuation.

You need to be up-front about the service you are offering—are you giving factual information or advice? In this example, Jack is clearly told up-front that he will not be given personal advice.

ABC Superannuation Fund needs to provide this warning because they are relying on reg 7.1.33H (they are not licensed to provide general advice about their fund).

Operator	Hi Jack. We would be more than happy to help you. I have to tell you that I can only provide you with general advice at this time which does not take into account your personal circumstances. I can, however, tell you what we would normally recommend for members. If you would like personal advice that takes your personal circumstances into account I could have one of our advisers call you. I also need to mention that ABC Superannuation Fund is not licensed to give you advice about the fund, so we recommend that you get a PDS and read it before making a decision. We can send you one in the mail, or you can find it on our website.
Jack	That's fine. I am thinking of speaking with an adviser for a more in-depth discussion, but for now some additional information would be great.
Operator	Okay, I will tell you what we generally advise people who have many years to go to retirement, and are in the usual situation where they have a variable rate mortgage and only have the 9% of salary payment that their employer has to pay going into their superannuation. By making an additional contribution to your super you may be surprised how much extra super will be available to you on your retirement. However, there are some things you have to be aware of when making further contributions to super. There are limits on the amount of money that can be put into superannuation without paying extra tax. In particular, you can only contribute before tax under a salary-sacrifice arrangement up to $25,000 a year at the moment, and the amount contributed by your employer must be counted towards that.
Jack	I think I will be safely under that amount!
Operator	People who earn less than $61,920 per annum should be eligible for the Government co-contribution. They can receive up to $1000 extra from the Government depending on their level of income for any financial year. Of course, the more you earn, the less you will be entitled to receive. Anyone who earns over $61,920 will not be eligible to receive this co-contribution.

As this example involves personal advice, the ABC Superannuation Fund needs to have an AFS licence authorising them to provide personal financial product advice: see s911A. In this example, the ABC Superannuation Fund can provide personal advice under s945A.

Jack	Looks like I miss out on that incentive. What about paying my inheritance into the mortgage?
Operator	That is what we would generally recommend to members in this situation. Reducing your mortgage in the form of a lump sum will give you additional flexibility, as you can draw on this money if you have the need later on. I am assuming that if a person puts extra money into their mortgage they can later redraw it, but in the meantime the amount of interest payable to the lender is reduced to the extent of the money put into the redraw account. The other thing to consider, in case interest rates go up, is that a lower mortgage means the higher interest rate will have less impact on your repayments. An option that may be good for many people is to put the money into a mortgage redraw account, and then arrange with their employer for some of their salary to go into their superannuation account before tax in addition to the 9% employer contribution. This will mean their salary will go down, but they can withdraw amounts from their redraw account to supplement their income. The advantage is that the money going into superannuation in this way is subject to lower tax for most workers. One thing to watch, however, is that you don't use the money in your redraw account except to make up lost salary. If you do, once the money runs out you might not be able to continue to meet your expenses, and you won't have saved the money for later.
Jack	I obviously still have a bit to think about before I make a final decision. I may get in touch with you if I feel I need more information on what I should do.
Operator	We'd be happy to help you.

Personal advice

Bill	Hi, is that Jack Johnson? I'm Bill Smith, the financial adviser from the ABC Super Fund you spoke to yesterday. **[At this point, Bill would perform the appropriate identity checks to confirm that he is speaking with the account holder. Bill will also confirm that the member has a copy of the current version of the FSG]**

Jack	Hi Bill. Thanks for calling back. As I was saying, my grandfather has recently passed away and left me $40,000 in his will. I want to know whether it would be best to pay it off the mortgage or invest this money in superannuation.
Bill	I'm sure I can help you. Let me just recap on your details as you advised yesterday: • You are aged 36. • You have a mortgage of $216,000 with a current variable rate of 7.80% per annum. • You have 20 years remaining on your mortgage. • Your home loan allows you to make repayments that go into a redraw account. • You are working full time and earn $85,000 per annum. • You don't have any other debts. • You have a balance of $66,000 in our ABC Super Fund invested in the Balanced option, and are not seeking advice about changing your option. • Your employer will not co-operate with you in relation to any salary sacrifice arrangement.
Jack	Yes, that's all correct.
Bill	You need to be aware though that I can only give you advice about your interest in the ABC Super Fund and the additional information you have given me, as discussed. I am not considering anything else, so if you would like advice on other issues, you should consider getting personal advice that looks at your overall financial position. You confirmed that you can withdraw monies paid into your home loan redraw account at any time without paying fees. While the money is in the redraw account, it offsets the amount owing on your mortgage for calculating interest.
Jack	I have never used that redraw account, but yes, that is right. I checked on it before because it is handy to know in case I need extra money in the future.
Bill	That's good. I will limit my advice to the use of your inheritance of $40,000 in the most effective way either by making contributions to superannuation or keeping the money in the redraw account.

You must make the scope of the advice you are giving clear to the member. In this example, ABC Superannuation Fund makes it clear that the scope of the advice is limited to Jack's interest in that fund. Bill has suggested to Jack that he might want to consider getting advice that looks at his overall financial position.

Jack	Thank you.
Bill	The Balanced option has an earning rate over the last 10 years averaging 7% per annum after fees and taxes. At the moment every dollar you put in the redraw account is saving you interest at a rate of 7.80% a year. It's not possible to be sure what the future rate of earnings in ABC Superannuation Fund will be, or what future interest rates will be. While the current interest rate applies on your loan, putting money in your redraw account will give you a better return than putting money into your superannuation. It is unlikely that over time the Balanced option in the fund is going to earn more than the interest rate you pay. There is another big advantage to paying off your mortgage, and that is if you need the money in the redraw account you can get it back. You won't generally be able to get the money in your superannuation until you retire.
Jack	Okay, thanks for making it clear. I think I would like to have access to my money in case of unforeseen emergencies.
Bill	Please give me a call if you have any more questions. I will also forward you a Statement of Advice, setting out what we have discussed today.

Statement of Advice to Jack on whether to pay a windfall into super or mortgage

STATEMENT OF ADVICE

ABC Superannuation Fund

1 July 2011

Mr Jack Johnson
1 Martin Place
Sydney NSW 2000

Dear Jack

$40,000 inheritance—pay into superannuation or mortgage

This Statement of Advice contains my recommendation to pay $40,000 you received through an inheritance into a redraw facility that is currently part of your mortgage account. Please note my advice is limited to this recommendation and does not take into account any other related financial issues at this time.

Information about you

- You are 36 years of age.
- You have mortgage of $216,000 with a current variable rate of 7.80% and 20 years remaining.
- Your home loan allows you to make repayments that go into a redraw account and the money there is deducted from how much money you owe when calculating interest.
- You are currently employed on a salary of $85,000 per annum.
- You have a balance of $66,000 in the ABC Superannuation Fund held in the Balanced option and want to remain in that option.
- Your employer will not co-operate with you by letting you accept lower salary and have the employer use the money to pay your superannuation fund.
- You have no debts other than your mortgage and no assets outside of your home and super benefits.

Our advice

I have compared keeping the money in your redraw account with contributing the money to superannuation, and I can recommend that you put the $40,000 in the redraw account. In the redraw facility you are effectively receiving an after tax return of 7.80% based on the current interest rates applicable to your mortgage. This rate of return is better than the Balanced option of the ABC Superannuation Fund, which returns an average of 7% after fees and taxes. This difference of 0.8% is worth about $320 a year.

Putting money into a mortgage is more flexible, as it is possible to take that money back through a redraw facility if you need it (although, of course, this will reduce the benefit you get from having paid the money off the mortgage).

If the mortgage is almost paid off, interest rates change, your employer becomes more co-operative or you change jobs, you should review whether you should put the money into your superannuation fund or look for some other option.

You might not want to fully pay off your mortgage so you can keep the redraw account as a source of ready finance. If interests rates were to fall, or you can get a better rate on your mortgage, then it might be worth looking again at making superannuation contributions. If you can establish an arrangement for your employer to contribute before tax to superannuation this might make you better off, so long as you keep within the maximum amount to which you can make contributions without paying extra cash.

Remuneration and conflicts of interest

I am remunerated by fee for service. This Statement of Advice is provided for a fee of $XX inclusive of GST.

Should you have any questions, please telephone me on (02) 9999 9999.

Yours sincerely

Bill Smith
Financial Adviser
ABC Superannuation Fund
5 Harbour Street
Sydney NSW 2000