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Value of IFFP Advice

Industry Super Network

SYDNEY
Level 1
2 Martin Place
Sydney NSW 2000
T +61 2 9293 3700
F +61 2 9233 5847

MELBOURNE
Level 20
303 Collins Street
Melbourne VIC 3000
T +61 3 8621 4100
F +61 3 8621 4111

BRISBANE
Level 11
167 Eagle Street
Brisbane QLD 4000
T +61 7 3220 3355

ABN 35 003 186 883
AFSL 239 191

129079v3

www.ricewarner.com

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1. Executive Summary

1.1 Our Brief

In November 2007, Rice Warner prepared a report for the Financial Planning Association (“FPA”) which compared the value of implementing a financial plan against the cost of paying for it. The report looked at 8 case studies provided by the FPA and some “limited advice” models constructed by Rice Warner.

In late 2008, Industry Super Network (“ISN”) commissioned Rice Warner Actuaries to undertake a review of the relative “value of advice” for superannuation fund members of financial advice provided under alternative remuneration models.

We were asked to consider two alternative financial advice remuneration models, which are utilised in the financial services industry to provide advice for members. The models fall into two broad groups, namely - fee-for-service and commission/asset-based fee. We modelled the costs and value of advice under both these remuneration structures for a number of typical financial advice scenarios.

For the sake of consistency, we assumed that the recommended strategies of fee-for-service and commission/asset-based fee remunerated advisers would be similar. The differences in cost and value measured between the two delivery models related to:

- The products recommended to implement the advice; and
- The manner in which the client pays for the advice provided.

Since that time, there have been several changes to legislation so some of the case studies are now out of date. This report provides an updated analysis of the same case studies.

1.2 Process

Rice Warner nominated five advice topic areas relating to superannuation fund members. We asked Industry Fund Financial Planning (IFFP) to select appropriate case studies for each of these topic areas from their files of existing personal financial advice provided to super fund members.

Rice Warner then used the Statement of Advice (SoA) output provided by IFFP to measure the costs to the fund member of receiving the advice and the value that would be obtained if the advice was followed. Rice Warner then used the same advice recommendations and modelled what value would have been obtained using the average retail super fund product costs and average retail super fund product-based ongoing commission/asset-based fee (as determined by Rice Warner from industry analysis from its annual survey of superannuation fund fees).

In assuming the same advice strategies from different advisers Rice Warner sought to compare:

- The IFFP advice costs with the average Retail ongoing commission/asset-based fee generated advice costs;
- The costs of the products recommended by IFFP with the average retail product costs; and
- The net value of advice delivered via each advice remuneration model.

All information and assumptions used in the model are documented in spreadsheets made available to ISN. The model forecasts three cash flows for each scenario detailing the overall financial outcome at the end of the planning horizon for:

- Outcomes that would result if advice is not adopted i.e. if the client's financial arrangements remained the same;
- Outcomes that would result if the advice is adopted using the products recommended by the IFFP adviser with product fees and advice costs as detailed in the SoA provided by IFFP to Rice Warner; and
- Outcomes that would result if the advice is adopted using the average ongoing medium-sized retail master trust (sub-plan size between \$2 million and \$5 million) fee of 1.95% and the average ongoing retail retirement income product fee of 1.85% - which include an ongoing cost of advice of 0.27% and 0.50% respectively. We did not use the fees of a large retail master trust (sub-plan size greater than \$5 million) because they generally do not have an adviser attached to them. Where a retail personal insurance product is included a premium quotation has been obtained that approximates the parameters provided in the SoA assuming an ongoing level commission of 16.5% of annual premium.

The fees in the retail segment vary significantly as many of the costs are variable and can be amended based on the personal circumstances of the client. Ultimately, the fees are negotiated between the financial adviser and their client.

We note that in the context of this report and the upcoming Future of Financial Advice changes, we use the terms commission and asset-based fees interchangeably. The reason for this is that an adviser may choose to charge an asset-based fee rather than a trail commission. However, the net effect on the member's financial position is unchanged.

1.3 Results

In comparing the total costs of advice in the five scenarios under consideration, the advice provided by an IFFP adviser in every scenario is less than the modelled advice costs for an adviser recommending a Retail product. The average annual fee and trail commission/asset-based fee is based on our analysis for the 2010 Financial Year.

The structure of the advice provided by IFFP (or other firms of advisers using a similar cost structure) is much cheaper for the average Australian. The advice is paid at the time the advice is required and there is no ongoing retainer (usually expressed as trail commission/asset-based fee).

We note that paying for advice upfront is consistent with the intention of the Government's proposal to require clients to annually "opt-in" to their advice agreements. The "opt-in" rule ensures that adviser remuneration is aligned with personal exertion and brings the service into line with other professionals. It also avoids fees creeping up in line with market performance, particularly in superannuation which will continue to grow by about 6% p.a. in real terms.

For all scenarios modelled, the direct IFFP advice costs were found to be lower than the estimated cost of advice delivered by a commission/asset-based fee remunerated adviser over the modelled time horizon. In other words, the effect of an adviser receiving an average ongoing commission/asset-based fee over a reasonable time horizon, assuming the average Retail superannuation product fee, can result in remuneration at least two times higher than the remuneration charged by IFFP for similar advice over the same period and, in some cases, much higher multiples.

We have measured the net value of advice as the economic value generated from the advice received less the advice costs (both direct and indirect) and the product fees used to implement the advice strategies. Both remuneration models delivered a net positive value of advice to the client over the time horizon, when compared to the client receiving no financial advice or not acting on the advice provided. However, the IFFP advice was found to deliver greater value in each scenario as the remuneration structure is a better one for dealing with those Australians who have a simple need for advice.

Value was delivered through lower direct advice costs when compared to indirect advice costs where an average ongoing commission/asset-based fee was paid. We note that significant value was also delivered through the selection of products used to implement the various advice strategies. The higher the ongoing product fees, the lower the resultant value delivered through the advice.

This report was prepared and peer reviewed for the Industry Super Network by the following consultants.

Prepared by

Peer Reviewed by



Actuary
Telephone: (02) 9293 3727
Jonathan.Ng@ricewarner.com

Managing Director
Telephone: (02) 9293 3704
Michael.Rice@ricewarner.com

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2. Background

2.1 Financial Planning Models

It is often difficult for a consumer to choose a financial adviser who will deliver a good plan at a reasonable cost. There are a number of different financial planning models currently operating and they differ in a number of dimensions:

- Structures range from holistic comprehensive reviews of a family's entire financial and business arrangements at one end of the dimension to simplified over the phone advice limited to a single aspect of arrangements within a super fund at the other end;
- Their approach to assessing or measuring a client's tolerance for risk;
- The style and type of products they recommend; and
- The manner in which they are remunerated.

Consumers mostly rely on reputation or endorsements/warnings by family and friends as a guide, though many receive a referral from their bank manager or superannuation fund.

Some individuals and families have complicated financial affairs which require complex solutions backed by regular review of their financial affairs. However, most people have similar basic financial needs which change gradually throughout their life. Provided the right strategy is set, they do not usually need a regular review of their affairs. However, they will need periodic reviews as their circumstances change over time.

Many financial advice strategies can be built around their membership of a superannuation fund. ABS data shows that superannuation is generally a family's largest asset after the family home. ISN considers that financial needs for average Australians can be addressed cost effectively through models such as those set up by Industry Funds Financial Planning (IFFP1) which uses the superannuation fund as its core for the advice it provides.

ISN has commissioned Rice Warner Actuaries to undertake a review of the relative "value of advice" for superannuation fund members under two alternative advice remuneration models, namely fee-for-service and commission/asset-based fee, for a number of typical financial advice scenarios.

ISN believe that greater value in advice through IFFP advisers is principally delivered through:

- The recommendation of low cost Industry Funds (i.e. Industry Fund product costs); and
- The generally lower fee-for-service costs directly charged by IFFP advisers for the provision of personal advice (IFFP advice costs) compared to indirect advice costs generally built into Retail products often recommended by advisers who are either solely or mostly remunerated via commission/asset-based fee payments to their Dealer Group (commission/asset-based fee generated advice costs).

We note that the second model will be greatly modified under the proposed Future of Financial Advice changes to be introduced as legislation over the next few months. However, the final details of these changes and the impact on member fees are not yet known.

In the context of this report and the upcoming Future of Financial Advice changes, we use the terms commission and asset-based fees interchangeably. The reason for this is that an adviser

¹ IFFP is a Division of Industry Fund Services Pty Ltd. ISN is a Division of Industry Super Holdings established by thirty eight industry superannuation funds.

may choose to charge an asset-based fee rather than a trail commission. However, the net effect on the member's financial position is unchanged.

2.2 Model for Comparison

Rice Warner constructed a new theoretical model to test these hypotheses. It should be noted that the comparison is based on the assumption that the recommended strategies will be similar and that these members only wanted advice related to aspects of their superannuation arrangements. Further, we have assumed that none of the clients require a regular ongoing review of the strategy. It is possible some of the members will ask for a review in a few years time. In these cases, IFFP would charge a supplementary fee.

Further, the scenarios included in the model were restricted to clients who were already members of an industry superannuation fund. We note there are a number of factors that can add extra complexity to the provision of comprehensive financial planning strategies. These factors, which require a greater quantity and quality of advice, include:

- Integration with business financial plans;
- Complex family trust and estate matters;
- Gearing; and
- Investment instruments outside the superannuation arena.

These factors were beyond the scope of this project.

The advice remuneration models which we have compared are:

- Personal advice provided under a pure fee for service basis based on an hourly rate as provided by IFFP (IFFP advice costs); and
- Personal advice provided by an adviser employed by a Dealer Group that largely recommends retail products and generally receives ongoing commission/asset-based fee payments (commission/asset-based fee generated advice costs).

Within each scenario, we have assumed the two main factors that influence the net value delivered to the client are the costs of obtaining the advice (both direct and indirect to the client) and the product costs involved in implementing the advice. The effect of product costs on long term superannuation savings is generally well known in the industry, with many product issuers advising potential members that annual fees and costs of 1% could reduce their returns by up to 20% over a 30-year period.

While there are other elements of value obtained from all financial advice such as simplicity or peace of mind, these qualitative elements were outside the scope for measurement to be included in the model used.

Our model is realistic but it should be noted that it makes a number of theoretical assumptions which may not be born out over time in the real world such as the continuation of taxation and social security regulations as they are today, positive investment returns each year and increasing inflation each year.

2.3 Methodology

Rice Warner nominated five case study topics which would apply to typical superannuation fund members. IFFP was asked to find suitable examples for each topic from their files of advice which had been provided to superannuation fund members.

The broad parameters set by Rice Warner were for cases of differing time horizons, three are for limited advice and two are for comprehensive advice.

IFFP provided a Statement of Advice (SoA) for each case with private information removed so that no individual could be identified. ISN undertook that no IFFP advisers who provided information for Rice Warner to analyse had access to information relating to this project other than the broad objectives of ISN.

Rice Warner then used the SoA output to measure the costs to the fund member of receiving the advice and the value that would be obtained if the advice was followed. Rice Warner then used the same advice outcomes and modelled what value would have been obtained using the average retail super fund product costs and average product-based ongoing commission/asset-based fee. The same projection rates were used for each advice remuneration model.

In order to make the comparison as fair as possible, we used average commission/asset-based fee levels rather than the maximum levels allowed within products. We took these from work prepared during our annual collection and analysis of superannuation fees and costs.

We have focused on the fees paid by members for advice. It is outside the scope of the project to examine the split of advice costs between the Dealer Group and the individual adviser providing the advice.

Finally, this report does not evaluate the quality of the advice provided nor the products recommended or selected to implement the advice.

2.4 Case Scenarios

The case scenarios modelled were:

- Insurance only (Limited personal advice);
- Co-Contribution strategy (Limited personal advice);
- Salary sacrifice strategy (Limited personal advice);
- Pre-retirement planning (e.g. Transition to Retirement); and
- Retirement planning.

A brief synopsis of each scenario modelled is included with more detail for each scenario included in an appendix to this report.

2.4.1 Insurance only (Limited personal advice)

Haroon is the sole breadwinner for his young family with two children. Haroon specifically wants to increase his income protection cover from \$60,000 p.a. to \$80,000 p.a. with a benefit payable until he is age 65 and increase his level of Death and TPD cover if appropriate.

2.4.2 Co-Contribution strategy (Limited personal advice)

Charlie who is 48 and single living a very modest lifestyle wants to retire at age 55 and would like to maximise her super savings to assist her in retirement until she is eligible for the Age Pension.

2.4.3 Salary sacrifice strategy (Limited personal advice)

Ralph is a single Project Manager who has most of his investments outside superannuation and would now like to build his super savings in a tax effective manner.

2.4.4 Pre-retirement planning (e.g. Transition to Retirement)

John and Judy are a married couple in their mid to late fifties who live a comfortable lifestyle and have accumulated assets, including their home, of over \$2.5m. John is a well paid economist and wants to ensure that their arrangements are set up to maximise their retirement income and assets into the future.

2.4.5 Retirement planning

David and Mavis are a married couple. David is retired and Mavis still works full time earning \$50,960 p.a. David and Mavis have a range of investments including three different Account-based Pensions and seek advice as to how best to structure their arrangements to maximise their wealth in retirement in the most tax effective manner.

2.5 Overview of Model

All information and assumptions used in the model are documented in spreadsheets, which have been made available to ISN for the purposes of conducting further scenario testing.

The model forecasts three cash flows for each scenario detailing the overall financial outcome at the end of the planning horizon for:

- Outcomes that would result if advice is not adopted;
- Outcomes that would result if the advice is adopted using the products as recommended by the IFFP adviser with product fees and advice costs as detailed in the SoA provided to Rice Warner; and
- Outcomes that would result if the advice is adopted using the average ongoing medium sized retail master trust (sub-plan size between \$2 million and \$5 million) fee of 1.95% and the average ongoing retail retirement income product fee of 1.85%, which include an ongoing cost of advice of 0.27% and 0.50% respectively. We did not use the fees of a large retail master trust (sub-plan size greater than \$5 million) because they generally do not have an adviser attached to them. Where a retail personal insurance product is included a premium quotation has been obtained that approximates the parameters provided in the SoA assuming an ongoing level commission of 16.5% of annual premium.

All financial amounts resulting from the model are expressed in today's dollars.

Any fee for service advice costs have been assumed to be deducted from the member's super account to provide a consistent basis of comparison with the deduction of product fees that include a component to cover commission/asset-based fee payments.

The key model outputs for comparison are:

- Total remuneration paid for financial advice over the time horizon expressed in today's dollars equating to total advice costs either paid directly or indirectly by the client; and
- Total net value of advice realised over the time horizon expressed in today's dollars. This value also incorporates all remuneration paid to the adviser.

2.6 Changes since Previous Report

We have updated a number of the case study parameters in response to potential changes in and changes already made to legislation. The updated parameters and their effect on the case studies are shown in the table below:

Table 1. Parameters and Assumptions Changed since Previous Report

Parameter/Assumption	Previous	Current	Effect of Change
Maximum co-contribution	\$1,500	\$1,000	Reduced value created by the co-contribution strategy (see Section 3.2).
Concessional contributions cap (persons aged under 50)	\$50,000	\$25,000	Reduced value created by the salary sacrifice strategy (see Section 3.3).
Concessional contributions cap (persons aged 50 and above)	\$100,000	\$50,000 ²	Reduced value created by a transition to retirement strategy (see Section 0).
SG contribution rate	9%	Increase from 9% to 12% ³	Reduced value created by strategies involving increased salary sacrifice contributions.
Income tax threshold	\$6,000-\$34,000	\$6,000-\$37,000	Reduced value created by strategies involving salary sacrifice strategy, since tax on income is reduced.
Marginal tax rate (\$80,000 - \$180,000)	40%	37%	
Industry fund fees	\$52 + 0.31% p.a.	\$78 + 0.65% p.a.	Reduced value created when client is advised to switch to an industry fund,
Retail fund fees	2.00% p.a.	1.95% p.a.	Increased value (relative to previous estimates) created when client is advised to switch to a retail fund

Each of the parameter/assumption changed has led to a reduction in the value of the advice since the previous report. We note in particular the cuts in the concessional contributions caps have significantly reduced the value created by advice related to increases in salary sacrifice contributions.

² In the May 2010 Budget the Government announced that the \$50,000 cap would remain until the financial year ending 30th June 2012 when it would reduce to \$25,000. The Government has since announced that \$50,000 will be the permanent cap for persons who have total super balances below \$500,000 and are aged 50 or above.

³ The first rise will occur from 1st July 2013 and the final rise will occur on 1st July 2019.

IFFP has also provided an update on the fees its advisers would charge for each advice scenario. The updated fees are shown in the table below:

Table 2. IFFP Fees Changed since Previous Report

Scenario	Previous	Current	Effect of Change
Insurance only	\$440	\$275	Increased net value created by reduced IFFP advice costs
Co-Contribution strategy	\$660	\$275	
Salary sacrifice strategy	\$660	\$275	
Pre-retirement planning	\$2,630 initial +\$880 p.a.	\$1,760 initial +\$560 p.a.	
Retirement planning	\$2,840 initial +\$880 p.a.	\$1,760 initial +\$560 p.a.	

3. Results

All figures are expressed in today's dollars unless otherwise stated.

3.1 Insurance only (Limited personal advice)

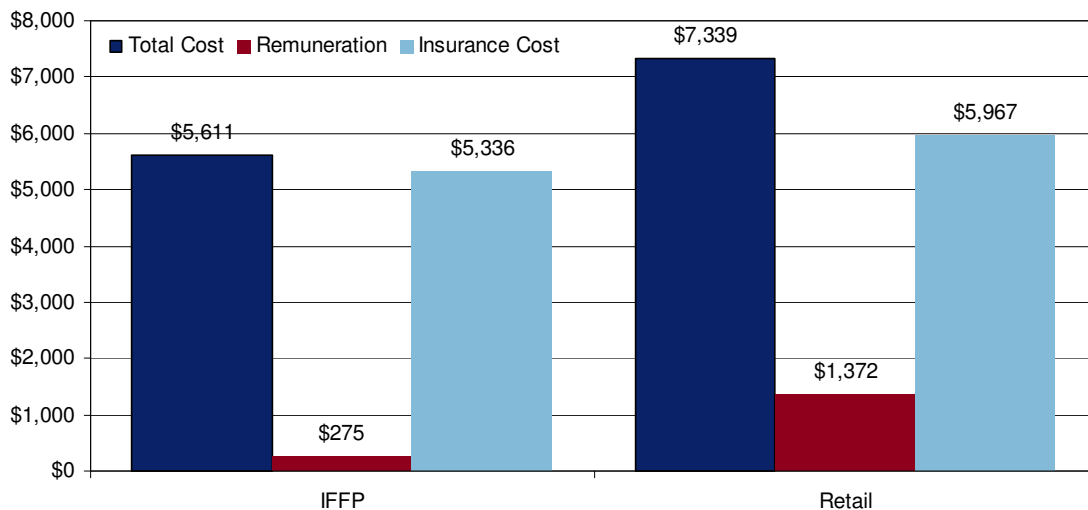
The total net value of advice in this limited advice scenario is difficult to measure as true financial value is only fully unlocked if an insurance benefit is paid. Consequently, we have assessed net value to be the difference in the cost of advice and the premiums paid. We compared this net value under the IFFP advice scenario to an adviser electing to be remunerated through ongoing level commission of 16.5% of the annual premium. This commission rate is half the maximum allowed for the product chosen by the IFFP adviser.

We have assumed that the increase in Death and TPD cover within the Industry Fund has the same net effect under both remuneration structures.

The difference in the cost of advice is easier to assess by comparing the total cost to the client of identical policies. The IFFP adviser charged a flat fee of \$275 upfront to be paid directly out of the insured's pocket. We have assumed that for the purposes of this comparison the commission generated advice costs were generated only from the income protection premiums paid. Thus the commission generated advice costs over the ten year time horizon is projected to be \$1,372. This is nearly five times the direct IFFP advice costs.

We estimated the differential in income protection premiums paid by the client, depending on whether they saw a fee for service adviser or someone remunerated by an ongoing level commission of 16.5% of annual premium, to be \$631 over the ten year time horizon.

Graph 1. Insurance



This particular case included the recommendation of a level premium (i.e. the policyholder pays the same amount of premium annually for the duration of the policy) product by the IFFP planner. Level commission is recurrent annual remuneration that is paid as long as the policy is in force. Many advisers are remunerated through high upfront commissions which would result in even higher advice costs.

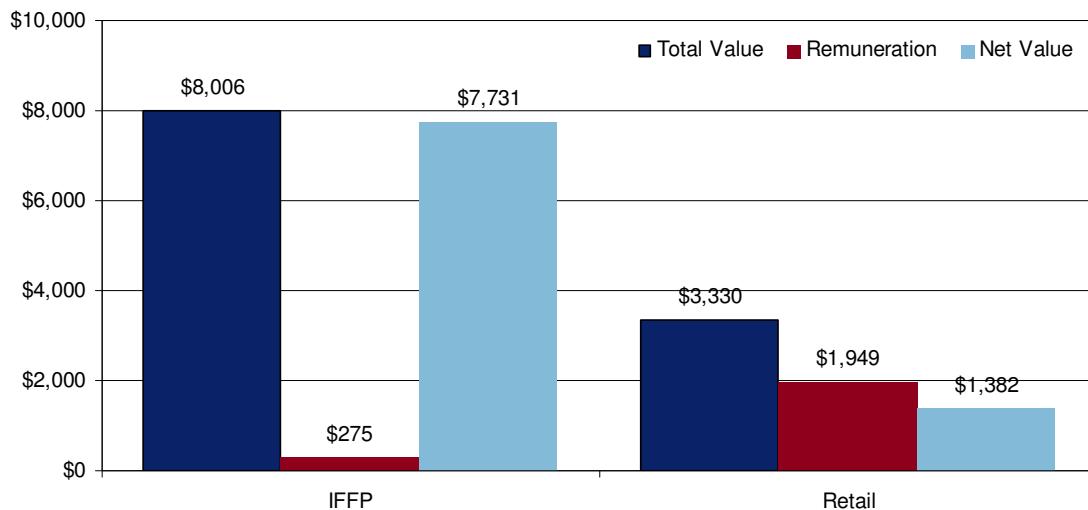
3.2 Co-Contribution strategy (Limited personal advice)

As this is a limited advice scenario, the IFFP adviser charged a once only advice fee of \$275. The commission/asset-based fee generated advice costs were based on an ongoing annual trail commission/asset-based fee of 0.27% on the full account value over the seven year time horizon. This was assessed as \$1,949, seven times the remuneration received by IFFP.

The difference in net value of advice⁴ delivered over the time horizon is more marked with the value delivered by the IFFP adviser being \$7,731 versus \$1,382 delivered by a commission/asset-based fee remunerated adviser. This illustrates the time value of money and the effect of higher fees over time.

We note that the reduction, since our previous report, in the Government co-contribution has resulted in a reduced value of the advice.

Graph 2. Co Contribution



⁴ We have assumed that the co-contribution scheme will operate as announced by the Government in the May 2010 Budget i.e. the maximum co-contribution will be \$1,000.

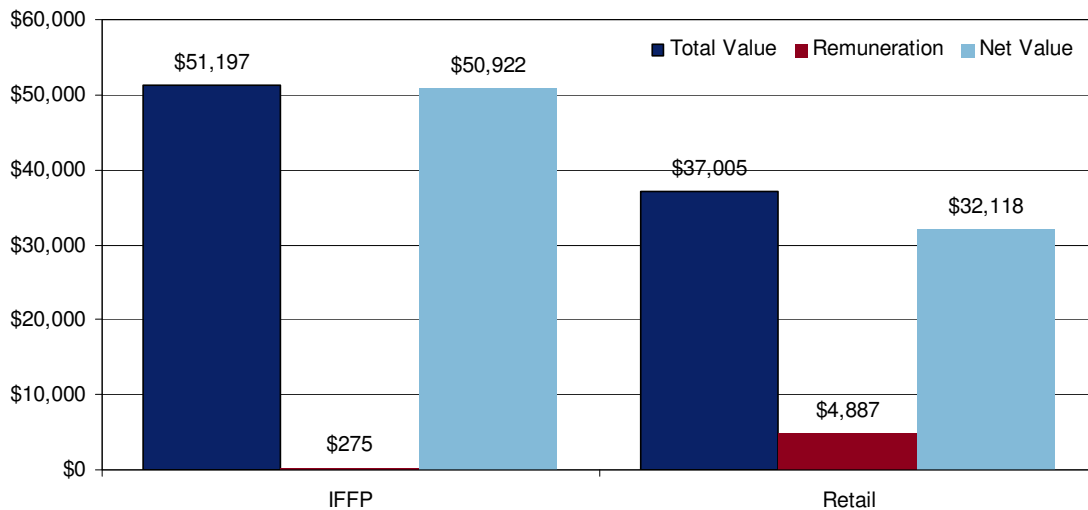
3.3 Salary sacrifice strategy (Limited personal advice)

As this is a limited advice scenario, the IFFP adviser charged a once only advice fee of \$275. The commission/asset-based fee generated advice costs were based on an ongoing annual trail commission/asset-based fee of 0.27% on the full account values over the nine year time horizon. This was assessed as \$4,887, nearly 18 times the direct advice costs of IFFP.

The net value of advice delivered by the IFFP adviser was \$50,922 versus \$32,118 delivered by a commission/asset-based fee remunerated adviser. This illustrates the time value of money and the effect of higher fees over time.

We note that the total concessional contributions in this scenario were unaffected by the reduced concessional contributions caps.

Graph 3. Salary Sacrifice



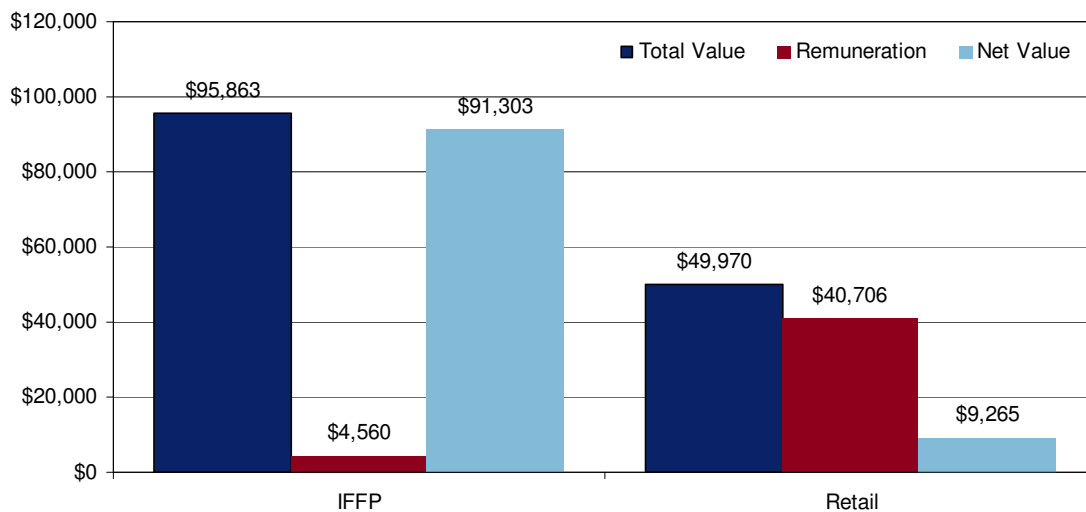
3.4 Pre-retirement planning (e.g. Transition to Retirement)

This is a comprehensive planning scenario with the IFFP adviser charging an upfront service fee of \$1,760 (including GST and implementation costs) and an annual review fee of \$560 (including GST, indexed each year by inflation) at the beginning of year two over the remaining five years. We assumed these fees are deducted from the member's super account so total advice costs were assessed as \$4,560 over the time horizon. The commission/asset-based fee generated advice costs were based on an ongoing annual trail commission/asset-based fee of 0.27% on the accumulation account balance and 0.5% on the retirement income product value over the six year time horizon. This was assessed as \$40,706, nine times the direct advice costs of IFFP.

The net value of advice⁵ delivered by the IFFP adviser was \$91,303 which is almost 10 times the value delivered by a commission/asset-based fee remunerated adviser of \$9,265. This illustrates the time value of money and the effect of higher fees over time.

We note that the reduction, since our previous report, of the concessional contributions caps has significantly reduced the value of advice delivered by both types of advisers.

Graph 4. Transition to Retirement



⁵ We have applied the concessional contributions caps as announced by the Government i.e. the concessional contributions cap is \$50,000 p.a. for persons aged over 50 with balances less than \$500,000 and \$25,000 for all other persons.

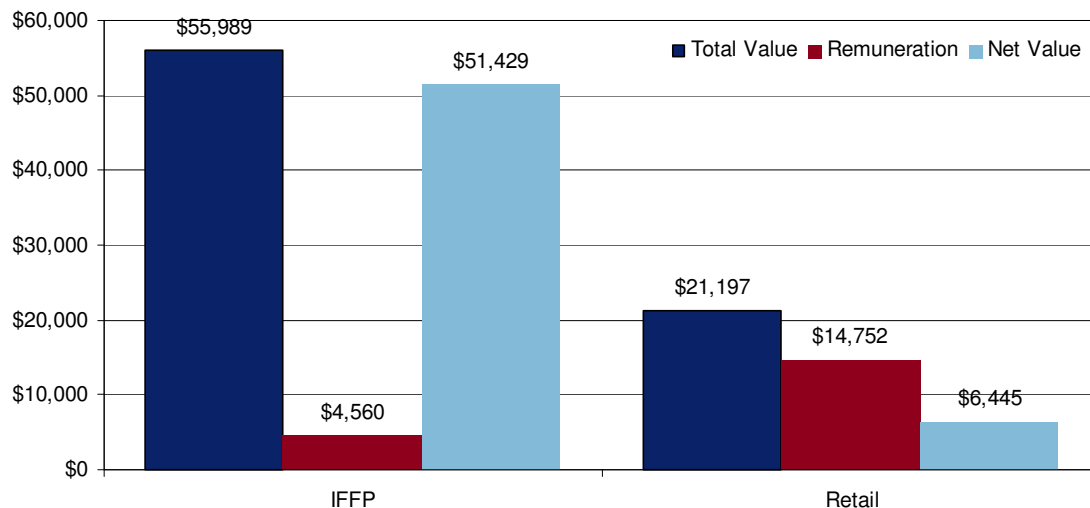
3.5 Retirement planning

This is a comprehensive planning scenario with the IFFP adviser charging an upfront service fee of \$1,760 (including GST and implementation costs) and an annual review fee of \$560 (including GST, indexed each year by inflation) at the beginning of year two over the remaining five years. We assumed these fees are deducted from the member's super accounts so total direct IFFP advice costs were assessed as \$4,560. The commission/asset-based fee generated advice costs were based on an ongoing annual trail commission/asset-based fee of 0.27% on the accumulation account balance and 0.5% on the retirement income product value over the six year time horizon. This was assessed as \$14,752, just over three times the remuneration received by IFFP.

The net value of advice delivered by the IFFP adviser was \$51,429, significantly more than the value delivered by a commission/asset-based fee remunerated adviser of \$6,445. This illustrates the time value of money and the effect of higher fees over time.

We note the reduction, since our previous report, of the concessional contributions caps has significantly reduced the value of advice delivered by both types of advisers.

Graph 5. Retirement Plan



In all scenarios the IFFP adviser delivered greater advice value through the products chosen to implement the advice strategies than through lower advice costs when compared to a Retail product with the average annual fee and commission/asset-based fee generated advice costs.

4. Conclusion

In comparing the total costs of advice in the five scenarios under consideration, the costs for advice provided by an IFFP adviser were lower over the measured time horizons than the modelled advice costs for an adviser recommending a Retail product based on average fees for the 2010 financial year.

The scenarios covered a limited range of advice requirements related to superannuation arrangements with varying time horizons. Based on the average retail superannuation product costs and ongoing commission/asset-based fee rates, the estimated cost of advice from a commission/asset-based fee remunerated adviser was found to be between 3 to 18 times the cost of similar advice provided by IFFP. In other words the effect of an adviser receiving an average ongoing commission/asset-based fee over a reasonable time horizon, assuming an average Retail superannuation product is adopted, can result in remuneration 2 to 17 times higher than the remuneration charged by IFFP over the same period.

In comparing the net value of advice (measured by value of advice received less the advice costs (both direct and indirect) and the product fees used to implement the advice strategies), both remuneration models delivered increased value to the client over the time horizon. However the IFFP advice was found to deliver greater value in each scenario.

In addition, significant value in advice was delivered through the selection of products with lower ongoing fees. The higher the ongoing product fees, the lower the resultant value delivered through the advice.

The results from the five scenarios modelled confirmed ISN's hypothesis that greater value in advice can be delivered (to members of industry funds) through IFFP advisers via:

- The recommendation of low cost Industry Funds, or similar low cost products; and
- A lower fee for service advice cost when compared indirect advice costs generated through ongoing average Retail product commissions/asset-based fees.

Obviously these outcomes are from a theoretical model where a number of assumptions have been made. Changes to these assumptions would alter the outcomes and demonstrate the sensitivity of the outcomes to such changes. To illustrate the sensitivity of the model, we reduced ongoing commissions/asset-based fees by 60% for accumulation accounts and by 80% for retirement income products, resulting in ongoing commissions/asset-based fees of 0.1% p.a. of the account balances (excluding the Insurance Only scenario). We note that while the magnitude of the figures altered, the overall trend in the results was unchanged. That is, the net value of the advice provided by the IFFP adviser was still estimated to be higher than that provided by a commission/asset-based fee remunerated adviser.

These results show that members with access to financial advice introduced via their super fund or other entities with big customer bases will benefit through the economies of scale that such structures can offer and obtain greater advice value, than if they were to seek advice from an unrelated party.

Appendix A

A.1 Insurance

Haroon and Isabella are a married couple in good health with two young children aged three and five. Haroon is the breadwinner for the family and wishes to ensure his insurance coverage is appropriate for his family's needs in the event that he is unable to financially provide for them.

Haroon who is 33 is employed as a scientific consultant on a package of \$130,000 p.a. Haroon's current Industry Super Fund balance is \$45,389 and he has death and TPD cover of \$428,800 and Income Protection cover outside of super of \$62,000 p.a. payable following a 60 day waiting period until he turns 65.

The adviser provides advice limited to Haroon's life insurance arrangements only and recommends to:

- Increase the Death and TPD insurance within the Industry Super Fund to \$643,200; and
- Change insurers and purchase a new Income Replacement policy that will provide \$80,000 in income p.a. with a 60 day waiting period to Age 65, charging a level premium.

A.2 Funding Superannuation - Co Contributions

Charlie is 48, in good health, single and works full time earning \$30,000. Charlie would like to retire at 55 and while she doesn't have many investment assets other than her home that she owns she would like to maximise her super savings to help her live until she qualifies for the Age Pension. Charlie thinks she currently needs \$26,000 p.a. to live.

The adviser recommends to:

- Make an after tax payment into her super account of \$1,000 p.a. and receive a government co-contribution of \$1,000 p.a.⁶

A.3 Funding Superannuation - Salary Sacrifice

Ralph is 46, single and in good health. Ralph has a stable job as a full time project manager earning \$75,000 p.a. and his employer contributes \$6,750 p.a. to a super fund of his choice. Rather than own a residential home he jointly owns two rental properties with his sister to gain benefits from negative gearing. As such Ralph's superannuation savings only represent approximately 10% of his investment assets yet he would like to retire at 55. Ralph would now like to salary sacrifice into his super fund to build wealth for retirement and to maximise his taxation position, and would like an annual income after tax of \$45,000.

The financial adviser provided advice limited to Ralph's potential salary sacrifice arrangements and recommended:

- Ralph's investor risk profile as an aggressive investor requiring 80% growth and 20% defensive asset investment portfolio;
- Salary Sacrifice \$18,000 p.a. into existing super account (subject to the concessional contributions cap) resulting in an overall tax saving annualised of \$2,900; and
- A small non concessional contribution of \$112 in the 10/11 financial year to maximise a government co-contribution of \$112.

⁶ Based on the reduced Government co-contribution.

A.4 Pre Retirement Planning - Transition to Retirement

John and Judy a married couple in good health currently enjoy a comfortable lifestyle. John, at 58 works full time as an Economist earning a package of \$231,649 and intends to retire at age 63. Judy who is 56 maintains their home. They currently expect to spend \$117,000 p.a. until John retires when their expenditure is expected to drop to \$52,000 p.a. They have total net assets of \$2,745,380, including their primary residence. John has death and TPD cover through his super which slightly exceeds their total debts.

John has heard through some friends about how effective transition to retirement planning strategies can be and is seeking to legally minimise tax. John and Judy would also like a fee comparison between their current super fund and an Industry Super Fund, and also wonder if they should establish a self managed super fund. John and Judy feel that their investment risk profile is as a 'moderate' investor.

The financial adviser advised John and Judy to:

- Retain the \$45,000 they currently hold in their home loan offset account to act as an emergency cash reserve;
- Make extra home loan repayments of \$113,545 for the next 3.5 years to pay off their home mortgage;
- Transfer \$1,605,380 from their existing super fund, leaving a balance of \$10,000 to cover ongoing life insurance costs, to an Industry Super Fund with lower ongoing fees;
- John to Salary Sacrifice into their new Industry Super Fund up to the concessional contribution cap (\$50,000 in the first two years and \$25,000 there after since his balance is greater than \$500,000);
- Transfer \$1,600,000 of the new Industry Super Fund account into their non-commutable income stream product and initially draw down the maximum pension possible under the transition to retirement provisions;
- The extra \$113,545 in income received above their desired \$117,000 be made as an extra repayment off the home mortgage; and
- Maximise the government's Co-Contribution.

A.5 A Retirement Plan

David and Mavis are a married couple in good health. David at 74 is retired and Mavis who is 59 works full time as a secretary earning \$50,960. Their other income each year ranges between \$18,504 and \$26,170. They currently spend \$68,000 each year and do not anticipate that to alter when Mavis retires.

David and Mavis have no debts and total assets of \$1,565,853 including their primary residence. David has three allocated pensions totally \$275,076 and Mavis's super account balance is \$65,379. They have \$26,000 in cash type deposits and an Estate Fund of around \$450,000. Mavis also has a small parcel of shares.

Both David and Mavis are seeking advice on maximising their wealth for their retirement and legally minimising their taxation with a view to receiving an annual after tax income of \$68,000 p.a.

The financial advice received was to:

- Retain \$21,305 in a savings account to act as an emergency cash reserve;

- Make a non-concessional contribution of \$450,000 into Mavis's Industry Super Fund;
- Any residual amount from the Estate Fund following the contribution of \$450,000 to be retained in the savings account and used for future home improvements;
- Mavis to salary sacrifice into her Industry Super Fund up to the concessional contribution cap (\$50,000 in the first two years and \$25,000 there after since her balance become greater than \$500,000);
- Mavis to make further non-concessional contributions of \$1,000 in 2010/11 and beyond until her retirement;
- David to consolidate his three Allocated Pension accounts into an Industry Fund Allocated Pension;
- David to receive Age Pension of \$9,529 p.a. to be reviewed prior to Mavis attaining Age Pension age in 2015; and
- David to fund any shortfall in desired annual income through making a lump sum withdrawal each year as required from his Allocated Pension.