Completing the assignment

The assignment

Task 1: The Faraz and Aisha Gita case study — Superannuation death benefit payments

Read the case study and fact finder, then:

• answer the four (4) questions your clients have about superannuation death benefit payments

• document your recommendations.

Task 2: In the above case studie– Engaging your clients

Reread the selected case study, then:

• answer the six (6) questions relating to client engagement at each stage of the financial planning process.

Task 1: Death benefit payments

The Faraz and Aisha Gita case study — Superannuation death benefit payments

Faraz and Aisha Gita have decided that they need some financial planning advice following the death of a close family friend. As their financial planner they have told you that they are concerned that their superannuation benefits may not be going to the right people most effectively.

Following due protocol, you met and provided them with the information they needed and then in a second meeting you collected information on their current financial situation and their needs and objectives. Table 3 records your clients’ personal details.

Table Personal details

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Client 1 | | | | Client 2 | | | |
| Title | Mr | | | | Mrs | | | |
| Surname | Gita | | | | Gita | | | |
| Given & preferred names | Faraz | | | | Aisha | | | |
| Home address | 22 Culcreuch Cres, Kellyville, NSW | | | | 22 Culcreuch Cres, Kellyville, NSW | | | |
| Business address | n.a. | | | | n.a. | | | |
| Contact phone | (02) 7765 5544 | | | | (02) 7765 5544 | | | |
| Date of birth | 1 August 1951 | | | | 20 November 1955 | | | |
| Sex | 🗶 | Male |  | Female |  | Male | 🗶 | Female |
| Smoker |  | Yes | 🗶 | No |  | Yes | 🗶 | No |
| Expected retirement age | When Aisha reaches age 65 | | | | Age 65 | | | |

Based on the information you collected from the couple over your meetings with them, you populated the tables on the following pages in relation to their superannuation.

Current superannuation, rollovers, insurances, etc.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Superannuation — Transition to retirement | | | | | | | | |
| Member | Faraz | | | | Aisha | | | |
| Fund name | AI Retail TTR Super Fund | | | | EANWB Retail Super Fund | | | |
| Date of joining fund | 1 July 1992 (service date) | | | | 1 July 1992 (service date) | | | |
| Type of fund |  | Accumulation |  | Defined benefit |  | Accumulation |  | Defined benefit |
|  | 🗶 | Pension |  | Pensioner | 🗶 | Pension |  | Pensioner |
| Contribution (e.g. 5% of salary) |  | By employer |  | By yourself |  | By employer |  | By yourself |
| Current value of your superannuation fund | $510,000 | | | | $332,000 | | | |
| Amount of death and disability cover |  | | | |  | | | |
| Is there provision for you to top up or salary sacrifice? |  | Yes | 🗶 | No |  | Yes | 🗶 | No |

|  |  |  |
| --- | --- | --- |
| Superannuation taxation details — Transition to retirement | | |
|  | Faraz | Aisha |
| Current value | $510,000 | $332,000 |
| Tax free component | $150,000 | $178,000 |
| Taxable component: | | |
| Taxed element | $360,000 | $154,000 |
| Untaxed element | $0 | $0 |
| Preservation: | | |
| Preserved | $510,000 | $332,000 |
| Unrestricted non-preserved | $0 | $0 |
| Restricted non-preserved | $0 | $0 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Nominated beneficiaries — Transition to retirement | | | | | |
| Name | Binding | | Non-binding  (Yes/No) | | Trustee discretion  (Yes/No) |
| Yes/No | Amount |
| Faraz | No |  | No | | Yes |
| Aisha | No |  | No | | Yes |
|  |  |  |  | |  |
|  |  |  |  | |  |
|  |  |  |  | |  |
| Is there any current flags or splits on a superannuation benefit of yours following a marriage breakdown? | | Yes/No | N | Details |  |
|  |
|  |
|  |
| Are you a beneficiary of any current flags or splits of a superannuation benefit following a marriage breakdown? | | Yes/No | N | Details |  |
|  |
|  |
|  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Superannuation — Accumulation | | | | | | | | |
| Member | Faraz | | | | Aisha | | | |
| Fund name | EANWB Retail Super Fund | | | | EANWB Retail Super Fund | | | |
| Date of joining fund | 1 August 2006 (service date) | | | | 1 July 1992 (service date) | | | |
| Type of fund | 🗶 | Accumulation |  | Defined benefit | 🗶 | Accumulation |  | Defined benefit |
|  |  | Pension |  | Pensioner |  | Pension |  | Pensioner |
| Contribution  (e.g. 5% of salary) | 🗶 | By employer | 🗶 | By yourself | 🗶 | By employer | 🗶 | By yourself |
| Current value of your superannuation fund | $107,000 | | | | $25,000 | | | |
| Amount of death and  disability cover | $640,000 | | | | $480,000 (death only) | | | |
| Is there provision for you to top up or salary sacrifice? | 🗶 | Yes |  | No | 🗶 | Yes |  | No |

***Note:*** It is assumed that the respective superannuation funds are claiming a tax deduction for the insurance premiums.

|  |  |  |
| --- | --- | --- |
| Superannuation taxation details — Accumulation | | |
|  | Faraz | Aisha |
| Current value | $107,000 | $25,000 |
| Tax free component | $30,600 | $9,600 |
| *Taxable component:* | | |
| Taxed element | $76,400 | $15,400 |
| Untaxed element | $0 | $0 |
| *Preservation:* | | |
| Preserved | $107,000 | $25,000 |
| Unrestricted non-preserved | $0 | $0 |
| Restricted non-preserved | $0 | $0 |
| *Previous years’ contributions:* | | |
| *Non-concessional contributions:* | | |
| Year 1 | $5,000 | $9,600 |
| Year 2 | $5,000 | $4,000 |
| Year 3 | $5,000 | $4,000 |
| Year 4 | $5,000 | $4,000 |
| *Concessional contributions:* | | |
| Year 1 | $25,000 | $25,000 |
| Year 2 | $25,000 | $25,000 |
| Year 3 | $25,000 | $25,000 |
| Year 4 | $25,000 | $25,000 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Nominated beneficiaries — Accumulation | | | | | |
| **Name** | **Binding** | | **Non-binding**  (Yes/No) | | **Trustee discretion**  (Yes/No) |
| Yes/No | Amount |
| Faraz | No |  | No | | Yes |
| Aisha | No |  | No | | Yes |
|  |  |  |  | |  |
|  |  |  |  | |  |
|  |  |  |  | |  |
| Is there any current flags or splits on a superannuation benefit of yours following a marriage breakdown? | | Yes/No | N | Details |  |
|  |
|  |
|  |
| Are you a beneficiary of any current flags or splits of a superannuation benefit following a marriage breakdown? | | Yes/No | N | Details |  |
|  |
|  |
|  |

Needs and objectives

|  |  |
| --- | --- |
| Details | Comments |
| To pay their death benefit in accordance with their wishes. | Faraz and Aisha would like 70% of their superannuation benefits to be paid to the surviving spouse with the remainder paid equally to their children. |

Task 1 questions

Faraz and Aisha had a number of questions in regard to superannuation death benefits. You are to answer the questions, as their financial planner, taking into account their personal details in the case study. Remember, many clients may not be familiar with the superannuation system and ask questions that may be technically incorrect. Respond to the questions asked by Faraz and Aisha. You are to determine if the question asked is incorrect and if it is you are to correct Faraz and Aisha, providing the correct information and how this relates to them.

***Note***: Full details of their financial situation are in Appendix 3. You will need to refer to that data to answer the questions for this task.

Faraz and Aisha’s questions

Question 1

Faraz discusses his friend’s experience with their superannuation death benefit and the various options they were offered. Faraz asks,

*‘Why do some people receive more money than they seem to have in the superannuation fund when a family member dies?’*

Question 2

Aisha comments that they see their children Vihaan, Prisha and Kyra as equals to each other and asks,

*‘Why is it that Vihaan and Prisha would have less options and treated differently to Kyra if they receive a death benefit from our superannuation funds?’*

Question 3

Aisha asks,

*‘What are the tax implications if our children receive a death benefit as an income stream?’*

Question 4

Faraz asks,

*‘If there is a difference in the way a death benefit is paid and taxed for our children why can’t we wait until Kyra turns 18 and is independent before a death benefit is paid to all the children?’*

Your strategy recommendations

As part of a statement of advice (SOA) a financial planner must justify their strategies by showing how they meet their clients’ needs and objectives.

Faraz and Aisha would like to have their superannuation benefits paid in accordance with their wishes in the event of their death. They would like to have 70% of the superannuation benefits paid to the surviving spouse with the remainder paid equally to their children.

In addition, Faraz and Aisha would like to know the tax implications if they decide to pass their full benefits to their children.

To meet Faraz and Aisha’s needs, your recommendations will need to address the following:

(a) How they are to achieve their desired death benefit structure.

(b) What the process is to achieve this structure.

(c) The tax implications of the proposed structure, including all tax calculations on all benefit payments.

(d) Details of other death benefit payment options including all tax calculations on all benefit payments.

(e) The tax implications if the full death benefit is paid to their children.

You will need to demonstrate that you have considered any insurance implications in your recommendations. Use the templates on the following pages to provide your responses.

(a) Use the space below to communicate to your clients how they can best achieve their desired death benefit structure.

(b) Describe the process that will have to be undertaken to achieve this structure.

(c) Describe the tax implications of the proposed structure and include all tax calculations on all benefit payments.

***Note:*** When answering this question assume date of death is 1 July 2014.

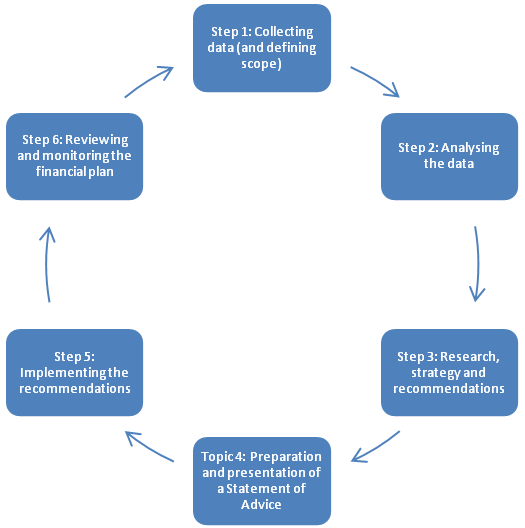
Calculate the total benefit payable to each beneficiary and their estimated tax liability.

(d) Communicate to your clients details of other death benefit payment options including all tax calculations on all benefit payments.

(e) Explain to your clients the tax implications if the full death benefit is paid to their children.

Task 2: Engaging your clients

The financial planning process is usually broken down into a series of six (6) steps. Each step is an opportunity to engage your clients in an ongoing conversation that begins with ‘fact finding’:



Select one (1) of the three case studies provided in Task 1, 2 and 3.

You will go through the process detailed in the diagram above with your selected clients and at key points ask questions about how you would deal with a situation that has arisen, or what you would say in response to one of your client’s queries or concerns.

Your assessor is looking for your ability to provide accurate information in a clear and concise manner, taking into consideration all the client’s circumstances.

Use the space provided to write your answers.

Task 2 questions

Step 1: Collecting data (and defining scope)

One of your clients is concerned about the amount of personal information you are requesting and is starting to feel uncomfortable in providing personal details to you. Your client asks,

*‘Why are you asking for all this information and what are you going to do with it?’*

Step 2: Analysing the data

Having collected the required data from your clients you advise them that you will contact them in two weeks to provide them with a detailed financial plan.

However, your clients are impatient and contact you after a few days and ask,

*‘What are you considering recommending and when can we commence the recommendation’.*

Step 3: Research strategy and recommendations

When conducting research to determine the final recommendations for your clients, you discover that you require more information from your clients. List three (3) questions you would ask you clients to gather the required information.

***Note:*** You can make assumptions in your questions to assist in the questions asked.

Step 4: Documentation and presentation of the statement of advice

As promised, you contact your clients in two weeks and you present their Statement of Advice (SOA) to them. They say,

*‘This is too big! We’re not reading this! Why can’t you just jot down the main points and tell us how to start it?’*

Step 5: Implementation of recommendations

Having presented the statement of advice (SOA) to your clients you go through the implementation of the recommendations.

You notice that your clients appear confused.

What questions would you ask your clients to check their understanding and satisfaction with the recommendations?

Step 6: Review and monitor the financial plan

You discuss the ongoing service that you provide to your clients. They say that surely due to their circumstances the recommendations that you have made don’t need to be updated once set in motion. Justify to your clients the need for ongoing reviews and monitoring of the financial plan.

Appendix: Case study

Case study— Faraz and Aisha Gita

The first meeting

Faraz and Aisha arrive at your office for the meeting. After greeting and offering them a coffee you confirm that they received your package of documents and that they have completed them.

You then take them through the key elements of the FSG and explain your role and capacity to assist them with their planning needs. You make sure that Faraz and Aisha are comfortable with that information before you proceed to the next step.

Collecting the data

You learn the following information about Faraz and Aisha through a process of thorough and polite questioning. From time to time they provide you with a relevant document to confirm their financial situation.

Current situation

Faraz, born 1 August 1951, is married to Aisha, born 20 November 1955. Faraz and Aisha have three children, a son named Vihaan, age 24, a daughter Prisha, age 21, both of whom are independent and a second daughter, Kyra age 16 who is still at school.

Faraz and Aisha own their own home, valued at $600,000, and do not have any outstanding mortgage, which was paid out eight years ago.

Aisha is employed full-time as a marketing manager earning $70,000 p.a. plus superannuation guarantee (SG) paid into a retail superannuation fund that she has chosen.

Faraz is a full-time sales representative for an agricultural supplies company. His salary is $100,000 p.a. plus SG contributions into a retail superannuation fund that he has chosen. Faraz intends to remain in this role until Aisha retires.

Faraz and Aisha contribute any excess income into their respective superannuation funds as non-concessional contributions. In addition, they also salary sacrifice to superannuation.

Both Faraz and Aisha have transition to retirement income streams that they commenced when they turned 55. As they are still receiving employer contributions and making non-concessional contributions they both have benefits in the accumulation and pension phases.

Superannuation

Faraz currently has $510,000 supporting his transition to retirement account-based pension in his retail superannuation fund. The benefit if fully preserved and is made up of:

• $360,000 taxed element of the taxable component

• $150,000 tax free component.

Faraz’s service period for this benefit is 1 July 1992.

Faraz has a second retail superannuation fund where he has his accumulated benefits. His accumulated benefit is $107,000 made up of $30,600 tax free component and $76,400 taxed element of the taxable component. In addition, this fund owns his insurance death and any occupation total and permanent disability insurance with a sum insured of $640,000. The service date for this fund is 1 August 2006.

Aisha currently has $308,000 supporting her transition to retirement account-based pension in her retail superannuation fund. Her benefit is fully preserved and is made up of:

• $129,000 taxed element of the taxable component

• $179,000 tax free component.

Aisha’s service period commenced on 1 July 1992.

In the same retail fund Aisha has an accumulated benefit of $25,000 made up of $9600 tax free component and $15,400 taxed element of the taxable component.

In addition, Aisha has a death only life insurance benefit owned by her retail superannuation fund with a sum insured of $480,000.

Faraz and Aisha’s superannuation funds will allow binding death benefit nominations, however, Faraz and Aisha have not elected to use this as they do not know what it is.

Both Faraz and Aisha salary sacrifice to superannuation and this does not impact on any other employee benefits and their SG contributions are based on their pre-salary sacrifice income.

In addition, any excess income is contributed to their respective superannuation funds as a non-concessional contribution.

Both Faraz and Aisha are invested in balanced funds within their superannuation funds.

Faraz and Aisha are happy with their current superannuation funds and the underlying investments they are invested in. They do not wish to receive advice in regard to changing their funds or investment profile.

Insurance

Faraz and Aisha have their life insurance and total and permanent disability insurance owned by their superannuation funds. Faraz’s sum insured is $640,000 of death and ‘any occupation’ total and permanent disability insurance and Aisha has a $480,000 sum insured death benefit. Aisha does not have any total and permanent disability insurance.

Faraz and Aisha are happy with their current insurance arrangements, including the premiums they are paying, the sums insured, and the policy ownership structure. They have specifically requested that they do not require any advice on their insurance matters.

Needs and objectives

During your conversation with Faraz and Aisha it becomes apparent that their main objective is to make sure their superannuation benefits are paid to the right people in the event of either or both of their deaths.

They have advised you that in the event of either of their deaths they would like 70% of their superannuation benefit to go to the surviving spouse with the remainder being paid equally to their children.

In addition, Faraz and Aisha would like to discuss the full tax implications of their death benefits if the benefit was paid to each other in the event of one spouse predeceasing the other and the tax implications if they decide to pass their full benefits to their children.

Closing the interview

Prior to concluding your meeting, you review the information provided by Faraz and Aisha to check that it is complete and accurate and ask if they have any questions.

Faraz and Aisha are curious about superannuation death benefits and the options that may be available and have a number of questions that came to mind during your recent meeting.

You advise Faraz and Aisha of what happens next and explain that with their agreement you will prepare a written report, based on the information they have just shared with you, which will include recommended strategies to assist them in achieving their financial goal of making sure the right people receive a superannuation death benefit most tax effectively.

Faraz and Aisha agree to proceed to the next stage of the financial planning process and you make an appointment to present the plan in a fortnight.