TOWER

Sales & Marketing Update

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– Where things are actually headed in the industry

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A Blueprint for Success

A successful financial planning practice has four key elements:

1. **A business plan**
2. **A prospecting method**
3. **A client management system**
4. **A belief system**

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No Time to Kill

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David Callander
TOWER Australia
CEO Risk

Personal Insurance – Where things are actually headed in the industry

Hello everyone

There is a lot of change going on in the personal insurance market at the moment and it is interesting to speculate on where things are actually headed in the industry.

The key driver of change still seems to be the issue of under insurance with just about everyone striving to find ways to deal with it. The issue has been top of mind in Australia and overseas.

In the past, the local industry has talked about addressing under insurance but no-one really seems to have come up with smart solutions. In my view, much of the fault lies with the industry, particularly the life companies themselves, which appear to have failed to successfully explain the issues and the needs for life insurance, and to develop appropriate products for the broader community.

In Australia, the issue of FSR has certainly changed things – and not necessarily for the better – when it comes to under insurance. The cost of compliance means that most of you, the well established adviser, now has to write much larger amounts of business just to stand still.

After you have spent time with a prospective client, filled in all the paperwork and completed a transaction, the premium and subsequent commission have to be relatively substantial to make adequate returns for your valuable time. Compliance costs are forcing many advisers to narrow their focus when it comes to prospective clients.

We all support the concept of FSR in increasing consumer transparency but we are also all looking for the implementation of the legislation to be refined to make it less expensive to manage and more accessible to clients.

We, at TOWER, have noted the trend to larger sums insured and premiums in the adviser market place.

Our average premium received has gone up as have the amounts insured for most policies. While it is true that clients are increasing their level of coverage as their personal risk profile increases, it is also likely that you, as advisers, can really only afford to spend time and effort to achieve the larger sale.

This has clearly opened up a gap. How does the average person still obtain a moderate level of personal insurance when they cannot afford or are unwilling to pay for advice?

A couple of trends have emerged both here and overseas which need watching very closely.

Perhaps the most interesting trend has been spotted in the UK. Five years ago, the UK was troubled by the same issue here – high levels of under insurance. But in the past five years there has been a tremendous transformation. For instance, in the UK term life sales have increased by 400 per cent since 1999.

The giant retailing chain, Tesco, has become one of the biggest sellers of personal insurance products. Life, critical illness and mortgage insurance are all available over-the-counter on a no-advice basis. From virtually nothing five years ago, Tesco now holds about 6 per cent of the life insurance market.

While waiting at a Tesco checkout, you can pick up a brochure, then go to another counter to fill out the form and pay a premium. Clearly, this no advice model only suits those seeking modest amounts of protection but it is one way where the issue of underinsurance in the UK is being addressed.

Alternatively, you can visit the Tesco website – www.tesco.co.uk and apply on line. Again, it is the no-advice model but there are plenty of tips to help people negotiate the process.

Australian retailers have been quick to pick up overseas retailing trends. Liquor and petrol are not top of the line products for Australian retailers and they are pushing to have more access to the pharmacy market.

At some stage, they may follow Tesco's lead and enter the life insurance market in Australia. As said, they are not likely to be a challenge to the existing adviser client group as they tend to operate in a different market niche.

A local trend to take note of, again following that of the UK, has been the growth of mortgage related personal insurance. As the average home mortgage has grown here, so has the recognition among many that they need extra coverage.

Both these trends may help address the underinsurance issue and hopefully grow the market overall. They can also serve as an introductory point to the personal insurance market for many people who may then migrate to the adviser network in subsequent years when their needs become more complex. This can only be a good thing for all.

David Callander
CEO Risk

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Carly O'Keefe

Strategy Watch – Consolidate your Superannuation and Reduce Lump Sum Tax

By Carly O'Keefe, Marketing Specialist

This article is very topical at the moment with superannuation choice of fund starting soon on 1 July 2005

There has been a dramatic growth in the number of superannuation accounts since superannuation guarantee was introduced in 1992. Individuals are often not aware of all of their superannuation accounts which is partly why the ATO has a lost member registry to assist people in locating their superannuation. Presently, on average, there are 3 superannuation accounts per member.

Although there may be an argument for having more than one superannuation account (ie diversifying your superannuation exposure), having more than one superannuation account can result in:

- more paperwork for you and the client;
- increased complexity for the client;
- increased fees;
- losing track of superannuation accounts;
- insurance coverage that is not tailored to the client's situation; and
- paying more lump sum tax in some circumstances.

Many advisers advocate the practice of consolidating superannuation accounts to overcome the problems listed above. In particular, advisers who have clients with multiple superannuation accounts where one account is characterised with a pre-July 1983 component, may provide tax savings by consolidating their client's superannuation accounts.

This article aims to explore how this strategy can be used to a client's advantage and highlights the taxation benefits that it can deliver. In addition it aims to identify some issues that should be considered before adopting such a strategy.

When an individual wishes to withdraw funds from their superannuation account, their eligible service period (ESP) is used to determine the break up of the various eligible termination payment (ETP) components. This is very important as some ETP components (ie pre-July 1983 component) can be taxed more concessionally than other components, such as post-June 1983 component. This difference presents some opportunities for implementing financial planning strategies that aim to reduce an individual's tax bill.

If an individual has multiple superannuation accounts where one account has an eligible service period from before 1 July 1983, it may be possible to reduce their lump sum tax liability by consolidating their superannuation accounts. By doing so you may be converting a larger portion of their superannuation into a pre-July 1983 component which may result in a tax saving for the individual.

In addition to having less lump sum tax to pay if making a withdrawal, this strategy can also bring the following benefits:

- a reduction in lump sum tax payable when pensions are commuted; and
- a reversionary income stream beneficiary may inherit a pre-1 July 1983 service period which may reduce their lump sum tax.

Example

Jerome, aged 65 has just retired and is intending to cash out his superannuation to retire some debt, and perhaps commence a retirement income stream with the balance. He has not received any superannuation benefits in the past and has no benefits counting towards his reasonable benefit limit (RBL).

He has the following superannuation accounts:

Superannuation Account 1

ESP	1/1/1965
Account Balance*	$260,000
Pre July 1983 component*	$120,204
Post June 1983 (taxed) component*	$139,796

Superannuation Account 2

ESP	1/1/1998
Account Balance*	$30,000
Pre July 1983 component*	NIL
Post June 1983 (taxed) component*	$30,000

* This is calculated on 1 January 2005.

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If Jerome was to withdraw his entire superannuation balance from both superannuation accounts he would pay the following lump sum tax[^]:

ETP Component	Method of Taxation	Tax Payable
Pre July 1983	5% assessed at marginal tax rate	($120,204 x 5%) x 31.5%[#*] = $1,893.21
Post June 1983 (taxed)	First $123,808 – tax free Balance – taxed at 15%	($169,797 – $123,808) x 16.5%[*] = $7,588.18
Total Tax Liability		**$9,481.39**

^ This is calculated on 1 January 2005.
# This assumes Jerome's marginal tax rate is 30%.
* This includes Medicare Levy of 1.5%.

In order to reduce the amount of lump sum tax payable, Jerome's adviser has recommended that he consolidate his two superannuation accounts. By adopting this approach, his combined superannuation will have the earliest ESP of 1/1/1965.

As a consequence of consolidating his superannuation accounts into one account the break up his ETP components are as follows:

Pre July 1983	**$134,074**
Post June 1983 (taxed)	**$155,926**

Accordingly, Jerome's lump sum tax payable[^] (if he were to withdraw his entire superannuation balance) would be:

ETP Component	Method of Taxation	Tax Payable
Pre July 1983	5% assessed at marginal tax rate	($134,074 x 5%) x 31.5%[#*] = $2,111.67
Post June 1983 (taxed)	First $123,808 – tax free Balance – taxed at 15%	($155,926 – $123,808) x 16.5%[*] = $5,299.47
Total Tax Liability		**$7,411.14**

^ This is calculated on 1 January 2005.
# This assumes Jerome's marginal tax rate is 30%.
* This includes Medicare Levy of 1.5%.

By implementing this strategy Jerome could save $2,070.25 in tax.

It is important to note that in some circumstances this strategy could also increase an individual's tax liability; therefore a comparison of the tax situation (before and after this strategy is adopted) should be performed to assess the benefit of consolidation. If an individual has a superannuation account with a post-June 1983 component that is less than the ETP tax free threshold ($123,808 for the 2004/2005 financial year) prior to consolidation, if they consolidate this with another superannuation account that has a 'Pre' component, it will reduce the amount of post-June 1983 component and will increase the amount of pre-July 1983 component. This will mean that the tax free portion of the payment decreases and the taxable portion (pre-July 1983 component) will increase.

In addition, care should be exercised for those individuals who have or may have benefits that are in excess of their reasonable benefit limit (RBL) as they may not wish to reduce the amount of excessive benefits that are notionally post-June 1983 taxed components as these are taxed at 39.5% if excessive, as opposed to pre-July 1983 components which are taxed at 48.5% if excessive.

Who are your target clients?

- Individuals who have more than one superannuation account and wish to reduce fees.
- Individuals who are seeking to reduce lump sum tax on the post-June 1983 component who have multiple superannuation accounts (where one of them has a pre-July 1983 component).

What are your opportunities?

- Contact clients who meet the target audience specifications and demonstrate how they can save money on fees and increase their level of superannuation savings when they consolidate their superannuation.
- If you have corporate superannuation clients, hold a seminar for members on this topic and illustrate how members can reduce their fees and in turn increase their retirement savings.
- Contact clients with multiple superannuation funds who are close to retirement who would benefit from this strategy.
- Strengthen relationships with existing referral sources (eg. Accountants) and describe this strategy to them so they can pass on clients who meet the target audience specifications.

This is one superannuation strategy that can be used to maximise an individual's retirement savings.
For more information please contact your Sales Manager in your state.

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It effectively enables 85% of pre-disability earnings to be insured and allows the client to allocate their basic benefiits to immediate needs, without having to worry about compromising their long term savings.

The Retirement Protection Option in Action

Current monthly salary (including super contributions)	$8,000
Income Protection Monthly Benefit	$8,000 x 75% = $6,000
Retirement Protection Option	$8,000 x 10% = $800
Total Benefit Payable	$6,000 + $800 = $6,800 or 85% of pre-disability earnings

TOWER 's Income Protection Plan is providing more than just 75% of replacement income.

Income Protection Benefit	75%
Retirement Protection Option Benefit	10%
Disability Plus Option Benefit	50%
Total Cover	135%

At TOWER, we have developed solutions which protect your clients against short-term loss, scheduled illnesses, severe disability and contribute to their long-term financial security.

OUR OPTIONAL BENEFITS PROVIDE MORE THAN JUST INCOME PROTECTION, THEY PROVIDE LIFESTYLE PROTECTION. FOR MORE INFORMATION CONTACT YOUR SALES MANAGER TODAY.

A Blueprint for Success

The following is from Russell A. Smith, CLU, ChFC, of Canyon Lake, California. He's been an MDRT member since 1984, and he has nine Court of the Table and six Top of the Table honours.

A successful financial planning practice has four key elements:

1. **A business plan**
2. **A prospecting method**
3. **A client management system**
4. **A belief system**

The combination of the above four elements is what I call the "blueprint for success," and it will lead to a more consistent and successful practice.

A brief description of each element follows:

1. **BUSINESS PLAN** – You can't get there if you don't know where you are going.

   Words to live by.

- Does it make sense to start a journey without a map? I think not.
- It also doesn't make sense to start a business without a plan.
- Your business plan should be in writing and should clearly indicate where you want to be 3–5 years from now.
- Income goal, number of clients, assets under management, and so forth, should all be part of your plan.
- How you are going to get there is equally important. How many days per workweek are you going to work?
- How many appointments to be held, calls necessary, and so forth, is all part of the plan.
- Put it all in writing and review often and revise as necessary.

2. **PROSPECTING** – The best salesperson in the world can't sell anything if he has no one to talk to.

- Get people in front of you on a consistent basis.
- For my practice, we do two things – we hold seminars on a regular basis and promote referrals. Seminars allow you to tell your story once to a large group of people, thus saving you time.
- There are a variety of seminar systems available that provide great opportunity for success.
- Check a few out, and find one that fits you and then do the seminar on a regular basis.
- Consistent effort equals consistent results.
- On referrals, you have to get them!
- We don't directly ask for them, rather we promote the concept of "accepting referrals."
- We constantly remind our clients that we accept referrals. And guess what? We get them.

3. **CLIENT MANAGEMENT SYTEM** – Once you have clients, you have to be able to manage them.

- Knowing when to call on them and why you are calling is key. But relying on memory and paper files is a thing of the past. Let technology work for you.
- There are a number of software programs available that allow you to manage client data and contact info. I personally use something called the Gorilla, but any number of programs – from Act

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to Goldmine – are available.

- Complete and correct data collection and input is a must and, if consistently done, yields awesome results. Imagine knowing and having all of a client's investment positions, renewal dates, and so forth, at a glance.
- Future sales become a cinch.

4. **BELIEF SYSTEM** – "You can't sell it if you do not own it."

Additional words to live by.

- The sale of financial products becomes infinitely easier when you can show clients and prospects that you own what you are suggesting they purchase.
- Try this – put together a binder with all of your investments, policies, and so forth, and keep it in your office. When meeting with your clients and prospects pull it out and show them that you're "putting your money where your mouth is."
- I assure you that you will close more sales.

  Hint: If you don't own what you are presenting – buy it now!
- Following this blueprint for success has enabled me to consistently make Top of the Table for the past several years.
- Try it, and I'll see you at the top!

With the compliments of MDRT Australia

No Time to Kill

Effective time management is not really about managing time, but about managing ourselves so that we don't squander time!

The problem is most of us efficiently budget our other resources and never adequately consider what may possibly be our most valuable asset – TIME.

Each of us has the same amount of time – 24 hours each day to spend, invest or waste.

People who achieve a great deal without working long hours simply manage themselves and their human tendencies better than others.

To use time more effectively, the application of the following simple five-step plan can help.

Step 1 Recognise that time is a unique resource

No person has more time than anyone else does. When someone does more in a day than you do, it's because they know how to manage their time better.

Step 2 Plan each day

- Make the most of your efforts, and be as effective as you want to be.
- Plan what you want to accomplish each and every day.
- Without a plan, you're like a ship without a rudder, whichever way the wind blows, is the direction you go.

To make the most of your planning –

- Spend 10 minutes at the end of the day planning what you want to do the next day.
- Write out a to-do list the night before and prioritise the list of actions.
- Priorities should answer the questions –

  "Is what I'm doing getting me closer to my goals?"

  "What would happen if I didn't do this?"

Step 3 Keep a time log

- The only way to know how you're really spending your time is to keep a time log.
- In 15-minute increments, write down everything you do in the workday.
- Keep track of telephone calls, appointments, paperwork, projects, writing and planning.

At the end of the week, ask yourself the following questions –

- What am I doing that really doesn't have to be done?
- What am I doing that someone else could do?
- What am I doing that could be done more efficiently?
- What am I doing that wastes the time of others?

Step 4 Avoid procrastination

There's really a simple reason why most people never accomplish what they could – they just can't get started.

Almost everyone procrastinates from time to time and they do so for a number of reasons such as fear of failure, being overwhelmed by work, avoiding an unpleasant task, etc.

Here are just a few ways to avoid procrastination –

- Write down and visualise the entire project before starting.
- Break the project down into small components.
- Start now – do something right away!
- Do the most unpleasant thing first.
- See the results – focus on the successes, not the failure or penalties of failure.
- Do a little bit – promise to spend only 10 minutes on a project.
- Reward yourself – give yourself a reward for completing a task.
- Work on only one project at a time.

Step 5 Organise your workspace

- Before you start anything, you should have all the necessary resources that you'll need.
- Keep in mind that organisation starts with your desk. The desk is not a place to stack all the items you want to remember. The desk is a tool for receiving and processing information.
- Have only one project on your desk at one time, and get rid of the things you're not ready to deal with right now.

By following these simple steps, you'll achieve more and enjoy it more. And as a result, you'll be more effective and have more balance in your life.