

Quality of Advice Review – issues paper consultation

Introduction

Clients are increasingly demanding advice services that are more strategic and tailored to their specific needs. Consequently, advice has been shifting towards a goal-based, strategic or objectives-based approach and away from advice based on product recommendations to suit the client's risk profile and strategic asset allocation.

Increasingly, clients are seeking transparency and guidance from their financial planner to enable them to make informed decisions about the strategic options available to them to meet their financial and lifestyle goals.

This requires that financial planners provide personal strategic advice on a range of matters which may not involve recommendations on dealing in a financial product or even on which strategy is most optimal. Instead, it involves providing client specific comparisons of multiple strategies with modelling to show how the strategic options meet the clients' financial and lifestyle goals. It then includes a pros and cons discussion to lead the client through a structured decision-making process and trade-offs between goals where necessary

However, advisers are confused as to their regulatory requirements when providing strategic advice to clients. Many question whether they need to operate under an Australian Financial Services license and whether they treat the advice as 'personal product advice' when they are not recommending specific products, even when they may be referring to class of products relevant to the client.

This has resulted in numerous professionals including advisers, accountants and lawyers providing strategic advice particularly relating to aged care without providing such advice under the AFSL regime. This places clients at significant risk of poor and unregulated advice that is likely to have a major effect on their financial and mental wellbeing.

In these situations, clients are relying on the information and advice provided by such unregulated professionals which can affect the following:

- Decisions around whether to keep or sell their family home, which is the major asset for older Australians.
- Changes to their living arrangements such as granny flat rights, moving to residential care facilities and downsizing.



- Changes affecting their aged care pensions and aged care fees which has an impact on their cash flows.
- Their quality of life and control to make decisions affecting their health and living arrangements.

Therefore, it is recommended that the Quality of Advice review clearly treat strategic advice as personal advice where a class of product is included. This will bring the delivery of strategic advice such as aged care advice under the regulations governing the provision of financial advice, including the Code of Ethics. It will also ensure that unregulated advice providers are unable to deliver strategic aged care advice that can harm clients.

Growing importance of aged care advice

Aged care is becoming an important advice area, not only for older people but also for younger people who either need to make arrangements for parents or are planning for their own future aged care needs. Increasingly Australians experience greater motivation to seek advice due to rising costs and increasing complexity.

With increasing life expectancies and improvements in medical technology we can all expect to have longer and more productive retirements. But there is a high chance of needing help with daily living activities and medical care, especially at older ages.

Legislative requirements

Legislation explicitly requires consideration of aged care needs in retirement advice.

The message is now clear for financial advisers and superannuation trustees. The requirement to consider imminent and future aged care needs of clients is unambiguously specified in the Financial Planners and Advisers Code of Ethics 2019 (“Code of Ethics”) as well as the recent Retirement Income Covenant (“the Covenant”).

The Retirement Income Covenant

The Covenant comes into force on 1 July 2022 and requires super trustees to develop a retirement income strategy for members. The Covenant asks trustees to consider the “life stage of beneficiaries and their likely consumption needs”. Similar to the *Three Phases of Retirement*[™] which has been identified by Aged Care Steps, these needs should not be defined by age, but rather by levels of independence and frailty.

Trustees need to consider the issues associated with the member's potential cognitive decline over time including access to savings to fund health and aged care costs, while allowing for the government subsidised services.

These member needs intertwine with good financial advice to consider the likely future for a member and the management of potential future risks. The aim should be to help members live their best life, no matter their level of physical or mental capability.

The Financial Planners and Advisers Code of Ethics 2019

Best Interest Duty (Standard 2), standard 6 and standard 5 of the Code of Ethics requires that advisers take into account "the client's broader, long-term interests and likely future circumstances". The explanatory statement clarifying Standard 6 uses the following example:

"For example, any potential need for the client or one of the client's family members to move into aged care accommodation in the near future would need to be factored into any financial advice you give the client."

With three out of the twelve standards specifically requiring consideration of the broader long-term interests, it cannot be clearer that advisers must actively address and discuss aged care considerations for clients and the clients' family members.

Aged care strategic advice is increasingly becoming a core financial planning service.

About Aged Care Steps

Aged Care Steps Pty Ltd specialises in supporting advice professionals, including superannuation funds and other investment providers, to build and develop profitable aged care advice solutions so clients/members can receive effective advice.

Aged Care Steps provides a suite of practical tools to support each stage of the advice process, helping advice professionals to maximise opportunities. We provide the knowledge and skills but also help professionals to define their service model, pricing and client value proposition.

Our services include:

- **Aged Care Personal Advice™**: Funds can outsource the delivery of aged care advice & education for their members to Aged Care Personal Advice™. This can also provide a mentoring pathway for advisers seeking to transition into delivering aged care advice.



- **Specialist training:** Training modules including the Accredited Aged Care Professional TM program.
- **Support services:** Practical tools to help professionals attract business and give advice. The range of tools include client brochures and fact sheets, seminar kits, quick calculators, technical library and advice process tools. We also provide modelling software that enables the professional to calculate the strategies for clients and generate a customized advice document.

Further information

For further information, please contact Assyat David, Director Aged care Steps:

E: Assyat.david@agedcaresteps.com.au

M: 0419 469 076