

We are pleased to bring you our July 2019 Newsletter.

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Fee for Service Insurance; an alternative to commission on Life, Trauma, Total and Permanent Disability and Income Protection insurance policies

Four of the most important personal insurance policies are Life Cover, Total and Permanent Disability Cover, Trauma Cover, and Income Protection Insurance. These policies provide a robust framework which can help people and their dependents to avoid financial stress and enable them to get on with their lives with some confidence. Warnocks September 2018 Newsletter explains these policies in more detail:

<https://www.warnocks.com.au/news/2018/9/9/warnocks-september-newsletter-personal-insurance-policies>

You may be aware that these products are now available on a fee for service basis. Until recently, these policies were generally only available to retail clients from brokers who were paid commission by the Policy Issuer (insurer, or underwriter). The Commissions generally continued for as long as the policies were in force.

Rather than charging upfront and annual commissions, one senior Insurance adviser is providing services on a different basis. The way it works is that a client's insurance needs are assessed, and policies are put in place. Wherever possible, premiums are quoted net of commission, and the client is charged a service fee. If it is not possible to negotiate premiums net of commission, then the full premium is charged to the client, who receives a full rebate of commission; the client is separately charged an agreed service fee. In subsequent years, clients have an annual review with the insurance risk adviser, the cost of which has been agreed in advance.

***Marcus English, the Insurance Private Client Adviser at Hewison Private Wealth, deals with some important issues here:**

Why fee for service?

Removing commission from a relationship removes potential conflict or bias that could influence the advice provided to a client. We want to ensure that any client arrangement is completely transparent, and that the only exchange of fees is between us and our clients, and not a third party.

We are compensated by an agreed annual fee, which is determined having regard to the number and level of policies, and other risk factors such as age, risk of claim, premiums etc. Our ongoing service includes administrative assistance and claims facilitation.

Marcus has provided some case studies for our clients' consideration:

Individual, 25 years of age.

Full time employed, white collar, \$105,000 annual income; has a partner, but no dependents, \$380,000 mortgage against home

The insurance we arranged: \$380,000 life insurance, \$1,100,000 total & permanent disablement (TPD) insurance and \$6,634 per month income protection to age 65 (level premium)

The cost: \$2,750 year one, \$825 commission rebate, \$700 annual fee year two and following.

The savings: \$125 in the first year, \$680 over five years*, \$1,250 over ten years*

Importantly, opting for a level premium on income protection saves \$187,870 by age 64
*assuming no changes to circumstances

Married couple number 1, mid 30's.

Married, just had their first child. Husband has a senior role, earning \$180,000p.a.

Wife has gone back to work earning \$60,000 p.a., recent mortgage of \$800,000

The insurance: \$1.75M life/TPD for husband, \$1.5M life/TPD for wife \$100K trauma insurance each (level premium), Income protection each to age 65 (level premium)

The cost: \$9,019 year one; \$2,616 commission rebate; \$2,145 annual fee

The savings: \$471 in the first year, \$13,943 over ten years

Married couple number 2, also mid 30's

Combined income \$400,000; Two young children under 4, \$1,000,000 debt

The insurance: \$2.8M and \$3.5M of life and TPD each; \$400,000 trauma insurance on level premiums; Income protection each to age 70 on level premiums

The cost: \$17,202 year one, \$3,200 commission rebate, \$2,500 annual fee

The savings: \$700 in the first year, \$3,850 over five years, \$8,460 over ten years

Barrister, private practice

64 years old, married with young adult children Income of \$1,500,000 per year, good assets, several million debt, with interest deductible against investments income.

The insurance: \$3,600,000 life insurance, \$2,000,000 trauma insurance \$53,000 per month income protection to age 70 on a level premium

The cost: Premiums prior to our restructure \$113,431
Premiums after our restructure \$64,418, fees of \$11,000

The savings: \$38,013 in year one, \$233,252 over five years

Marcus also makes some interesting points in support of the fee for service model, as opposed to a commissions-based model.

“There are no additional fees to existing clients for assistance with claims. Seeking advice helps to ensure the arrangements get setup appropriately in the first instance. Factors to be considered include

1. Consideration of the Structure of policies (super, non-super, company ownership etc.) and the tax consequences, and
2. Premium structures including stepped premiums versus level premiums, or a hybrid of the two. Using a level premium when appropriate can have an enormous long-term affect for clients. Likewise, ensuring that level premiums are not used when it isn't appropriate – some insurance needs will likely reduce over time, so paying the higher level premium may not be in their best interest.

One needs to be cautious when replacing policies – modern insurance policies have rules explicit around disclosure. Some policies that have been in place for a while are no longer subject to disclosure rules.

Opening a client up to further medical underwriting can cause problems in the event of non-disclosure. An insurer may void a contract if they discover non-disclosure; this can be a problem if the client may have been covered under the old policy. It is vital that clients be made aware of the duty of disclosure to avoid problems. This is an area where conflict can cause problems, because a commission-based adviser might be motivated to rewrite policies to get paid a higher commission rate. Without commissions in the picture, we can focus on the strategies likely to be best for the client.

One also needs to be mindful of the quality differences between insurance products in each of the retail, group and direct markets. There can be significant differences in the quality of the underlying contractual provisions. As ever, there is a trade-off between Costs and Benefits”.

Marcus suggests that clients should seek guidance on the arrangements that will serve them best. Group and Direct insurance can be of a more basic nature – providing shorter benefits or weaker claims definitions. Retail policies are often products of greater quality. They generally get medically and financially underwritten upfront, which has its own advantages if a claim is ever required, but at that stage they are also guaranteed renewable.

**If you would like to contact Marcus, you can reach him by email at: Marcus.English@hewison.com.au; or by telephone on 03 8548 4800. Hewison Private Wealth is located at 417 St Kilda Road, Melbourne.*

From The ATO: How it is going to be for work-related expenses.





The ATO has sent the attachment to this newsletter for the information of certain clients, whose work-related expenses in 2017 and 2018 appear to have exceeded the statistical norms for their occupations. This is a part of the ATO's successful strategy of warning persons deemed to be high-risk that their claims are being monitored. This strategy has the effect of getting people to carefully assess their claims for work-related expenses. It seems to be a better use of resources in terms of limiting deductions than does auditing taxpayers' returns.

The ATO publication is called: 'Setting the Record Straight'.

It begins by stating that to claim a deduction for work-related expenses:

- A. You must have spent the money yourself and weren't reimbursed
- B. It must be directly related to earning your income, and
- C. You must have a record to prove it

These are important requirements, and we do well to take heed of the advice to only claim amounts actually incurred. That said, the attachment is rather cheerless, and takes a fairly forensic and prescriptive approach to dealing with the following classes of expenses:

-  Car Expenses, Logbook or Cents/km methods,
-  Clothing, Laundry and dry-cleaning,
-  Phone and Internet and
-  Working from Home and Self-Education

Please do call us if you have questions when you have had a look at the publication.

Warnocks News

1. Search for another staff member

We are looking for another staff member to join our team in August or September. In case you know of a person whom you think might fit the bill, we are seeking someone who satisfies the following requirements:

- A. Holding an Australian Bachelor's Degree,
- B. Meeting the study prerequisites for Chartered Accountants Australia and New Zealand, and
- C. Having a Permanent Residence visa.

Promising applicants will undergo psychometric assessment and may then go on to meet with our Careers Psychologist.

2. Anaelle

It has been a big year for Anaelle Wong, our Senior Business Services Advisor, who recently announced her engagement. We are delighted to let you know that Anaelle has just passed her final CAANZ exams. Anaelle hopes to be admitted as a member in the next few months. Sincere congratulations Anaelle; you finished in record time.