

Example SOA

This example SOA (Version 2.0) is based on a hypothetical and limited financial advice scenario developed in consultation with stakeholders. The financial advice scenario deals with personal advice about investing in managed funds and basic deposit products and personal insurance, given to a new client (i.e. not in an ongoing advisory relationship). The advice we developed is one of a number of possible outcomes. The purpose of this example SOA is to illustrate clear, concise and effective disclosure and not to illustrate the giving of suitable or best advice.

Statement of Advice

prepared for

Joe Black and Sue Black

by Sally Strong

authorised representative (No. 45678) of

Planforit Pty Ltd

ABN 12 345 678 901

Australian financial services licence no. 12345

12 Monet Street, Melbourne, 3000

(03) 9280 3200

financialservices@planforit.com.au

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What this document is about

Joe and Sue, you have asked for my advice about how to invest the \$155,000 that you have in your joint-access savings account and how you can protect your family in case either of you should die or become sick or injured.

This document (called a Statement of Advice or SOA) explains my advice.

At the front of the SOA, I highlight the key points of my advice, but please make sure you read *each section* of the SOA.

A pointer icon like this ^ highlights something important.

My contact details

You can contact me on: **(03) 9280 3200** My email address is: **sstrong@planforit.com.au**

Postal address: **12 Monet Street, Melbourne, 3000**

More information on investing

For general information about insurance and investing (including a managed funds calculator to help you understand the effect of fees and different investment options) go to

www.moneysmart.gov.au.

You can also visit Planforit's website at **www.planforit.com.au.**

Summary of my advice

What my advice is	<ul style="list-style-type: none">• I recommend that Joe gets:<ul style="list-style-type: none">◦ \$950,000 of life and total and permanent disability (TPD) cover from his super fund◦ Bygones Income Protection Cover to cover 75% of his income if he is unable to work because of illness, accident or injury.• I recommend that Sue gets \$350,000 life and TPD cover from her super fund.• I recommend that you use the \$155,000 in your DMF Bank joint-access savings account as follows:<ul style="list-style-type: none">◦ use \$50,000 to pay off your mortgage◦ invest \$25,000 in a high-interest at-call joint-deposit account with DMF Bank◦ invest \$40,000 in the Bluebottle Balanced Managed Fund◦ invest \$40,000 in the Balanced Alphabet Fund.• I recommend that you do not invest in hedge funds.
Why my advice is appropriate	Having appropriate insurance will give you and your family protection in the event that either of you die or become sick or injured. The recommended investments are suitable for investors like you who want your money to grow over time and are prepared to take some, but not a lot, of risk. You can still withdraw your money from these investments if you need it. Paying off your mortgage means you will no longer be making repayments, which will save you money.
Risks in my advice	All managed funds (including the managed funds I have recommended) carry some risk. These investments are not like having money in the bank. There is a risk that their value might not go up as quickly as planned (or at all) and that their value might go down.
What my advice doesn't cover	My advice does not cover trauma insurance (i.e. a lump sum payable on diagnosis of a defined illness or injury), your general insurance needs (e.g. car and house insurance), the adequacy of your super for retirement, general tax issues or what you should do with the extra money you will have by paying off your mortgage.
Fees and commissions	The fee for my advice and for preparing this SOA is \$1450. Of this, Planforit will get \$580 and I will get \$870. Please pay this within 14 days of receiving this SOA. If you follow my advice, Planforit will be paid upfront and ongoing commissions for your purchase of the insurance products. I do not receive commissions for my recommendations to invest in managed funds. You will also be charged fees for purchasing and investing in some of the products I recommend.
Next steps	To decide whether to follow my advice, you should: <ul style="list-style-type: none">• make sure you understand my advice• ask me any questions you have. To follow my advice, complete the authority to proceed at the end of this document and return it to me.

Section 1: Important information about you

This section has information about you that I used in preparing my advice, such as your:

- goals and objectives
- personal and financial information
- risk profile and financial knowledge.

^ Please tell me if you think this information is wrong or incomplete because it will affect my advice.

Your goals and objectives

We met on 12 July 2013 for the first time. At that meeting, you told me you wanted advice about how to invest the \$155,000 in your joint-access savings account, which includes the \$150,000 Joe inherited under his mother's will. You also told me that you:

- wanted to make some investments to provide for your future
- wanted to protect yourselves and your family in case either of you should die or become sick or injured
- were hoping to double the value of your investments in the next 10 years or so, but you didn't want to take too many risks
- wanted to be able to use the money if you needed it to pay for things like a new car, family holidays and house renovations. You are not expecting to make these purchases for at least four to five years
- didn't want to put the money into Joe's super because you don't want the money locked away until Joe retires
- were thinking of investing in hedge funds because a friend said they have strong growth and low risk.

Your personal information

Joe	Sue
Employed as a computer programmer. Currently has three months sick leave available	Stay-at-home parent and does not intend to go back to work on a full-time basis
Excellent health	Excellent health
No family history of hereditary diseases or early death	No family history of hereditary diseases or early death
Standard private hospital cover Has a current will	Standard private hospital cover Has a current will
43 years old	41 years old
You have two children: Katie is 10 and John is seven. They currently go to government primary schools. You do not expect that they will go to private schools.	

Your financial information

What you earn and spend each year

Your yearly income before tax	\$85,000
Your yearly income after tax	\$65,603
Benefits (Family tax benefits from the Australian Government)	\$5,442
Your total yearly income after tax + benefits	\$71,045
Your total yearly expenses	\$70,200 (about \$1,350 a week)

This tells me that your income just covers your expenses, and doesn't let you save much.

What you own and what you owe

Asset	Owner	Value	Liabilities	Amount
House	Both	\$550,000	Mortgage	\$50,000
DMF Bank joint-access savings account	Both	\$155,000		
Superannuation—Data Industry Super Fund	Joe	\$50,000		
Superannuation—QRS Super Fund	Sue	\$12,000		
Other assets	Both	\$85,000		
	Total assets	\$852,000	Total liabilities	\$50,000

Your risk profile

Investing involves risk. Risk is the chance that an investment will not give you the returns you hoped for or that you will lose money. Almost all investments have risk, but some have more than others.

Generally, investments that are expected to pay higher returns involve more risk. While these investments are likely to produce higher returns over time than more conservative investments, over short periods they can fall in value and lose money.

From our discussions, I think you are 'balanced' investors. That is, you want your investments to grow in value over time and will take some risks to achieve this. I have explained that your goal of doubling your money in 10 years (even if achievable) would involve a much higher level of risk than you are comfortable with.

On this basis, I think an appropriate asset mix for you is:

- about 40% in income assets (such as, for example, deposit products)
- about 60% in growth assets (such as, for example, some managed funds).

The chance of a negative return for this kind of asset mix is about one year for every five years you invest.

Section 2: My advice to you

This section tells you:

- what my advice is and why it is appropriate for you
- any disadvantages of my advice
- the consequences of replacing one financial product with another
- the important things my advice does not deal with.

^ Please read this section carefully and ask me if you have any questions.

What is my advice?

- Based on what you are prepared to spend, I recommend the following personal insurance products:

<i>Type of cover</i>	<i>Product*</i>	<i>Product provider</i>	<i>Amount of cover</i>
Life and TPD cover for Joe	Data Life & TPD Cover	Data Industry Super Fund	\$950,000
Income protection for Joe (paid to you in the event of sickness or injury to age 65)	Bygones Income Protection Cover with a three-month waiting period	Bygones Financial Services (Bygones)	\$5,312 per month (equal to 75% of your current monthly taxable income)
Life and TPD cover for Sue	QRS Life & TPD	QRS Super Fund	\$350,000

* I have enclosed a Product Disclosure Statement (PDS) for each of these products. The PDS will explain the cover (e.g. when you can make a claim).

- We discussed trauma insurance and you told me it was not a priority for you.
- I recommend that you close your DMF Bank joint-access savings account and use the money in the following way:
 - pay off the \$50,000 mortgage you have with DMF Bank
 - invest \$25,000 in a high-interest at-call joint-deposit account with DMF Bank
 - give the remaining \$80,000 to Sue to invest as follows:

<i>Amount</i>	<i>Use/investment*</i>	<i>Product provider</i>	<i>Investor name</i>
\$40,000	Bluebottle Balanced Managed Fund	Bluebottle Financial Services	Sue Black
\$40,000	Balanced Alphabet Fund	XYZ Financial Services	Sue Black

* I have enclosed a Product Disclosure Statement (PDS) for each of these products. • I recommend you do not invest in hedge funds.

Why is my advice appropriate for you?

Personal insurance

You need personal insurance to protect your current financial situation and lifestyle should anything happen to either of you.

Joe needs life and TPD cover and income protection insurance because he earns the income. It is cheaper for Joe to get life and TPD cover from his existing super fund. The amount of life and TPD cover (if invested) would generate enough to replace what Joe currently earns. This would give protection to Sue and the children. The income protection is the maximum amount available to Joe. The amounts I have recommended take into account:

- Joe's current income
- cover under Joe's existing super
- your current assets including your savings, investments and super balance
- that you will have no debt if you pay off your mortgage
- whether Sue will go back to work in paid employment if Joe dies or becomes sick or injured.

Sue also needs some insurance in case she can't continue to look after things at home. The amount of life and TPD cover would pay for replacing Sue's home duties until the children are old enough to contribute (i.e. in about five to six years). It is cheaper for Sue to get this cover from her existing super fund. The amount I have recommended takes into account:

- the cost of hiring help to replace the work carried out by Sue
- your current assets including your savings, investments and super balance.

The \$350 you will save each month after paying off your mortgage gives you an annual saving of \$4200. The insurance I have recommended for you will cost \$3070.25 in the first year, which is more than offset by the savings from paying off your mortgage.

By paying off your mortgage, you will be better off than if you kept the mortgage and invested the \$50,000. Because you are no longer making mortgage repayments, you will have an extra \$350 a month to use.

Paying off your mortgage

If Joe doesn't give the money to Sue, he will still own the investments (even if they are in Sue's name) and will have to pay the tax on the investment income at his marginal tax rate.

Joe giving \$80,000 to Sue to invest

This means you will both pay less tax overall, because Sue doesn't earn any income at the moment. Any income she does earn would be either tax-free or taxed at a very low rate. The income from the investments will not affect your entitlement to the \$5,442 family tax benefit.

Putting the investments in the managed funds in Sue's name

Putting \$25,000 in a high-interest joint-deposit account This gives you access to extra cash if you need it, without any withdrawal costs. The high-interest at-call joint-deposit account at DMF Bank is on Planforit's approved product list. It offers a competitive interest rate similar to other high-interest deposit accounts, and has the convenience of being with your current bank.

Investing in the managed funds I have recommended This spreads your investments across a number of different classes of assets that suit your goals and objectives. Bluebottle Balanced Managed Fund and Balanced Alphabet Fund invest in an asset mix of about 40% in income assets and 60% in growth assets. These funds are both on Planforit's approved product list as suitable for balanced investors. By investing in two managed funds rather than one, you reduce your investment risk, in case one fund performs badly.

Not investing in hedge funds Hedge funds aren't on the Planforit approved product list so I can't recommend them. In any case, they are unlikely to be an appropriate investment for you because they normally adopt investment strategies more suited to investors willing to take more risks.

How this advice is in your best interests

Following this advice should put you in a better position than your current position, as:

- you will save money on mortgage repayments
- the money you save on mortgage repayments can cover the insurance premiums you need to pay for insurance to safeguard your current financial position and lifestyle

By dividing your savings between two managed funds and a high-interest at-call account, you can expect your investment to grow more over the long term but you will still be able to access funds should the need arise in the short term. While your goal of doubling your money is not realistic given I have assessed your risk tolerance as that of balanced investors, this strategy should give good growth without exposing you to high risk.

As you indicated your priorities were to make some arrangements to protect yourselves and your family in the event you die or become sick or injured, and how you could best invest your \$155,000, without taking too many risks, the strategies outlined above achieve this.

Does my advice have any disadvantages?

Personal insurance The amount of cover recommended for Sue's life insurance is only sufficient to replace her contribution to the household for approximately five to six years.

Paying off your mortgage Because you are paying off your mortgage early, you might be charged a discharge of mortgage fee and legal fees. You should contact DMF Bank about these fees.

Putting \$25,000 in a high-interest at-call joint-deposit account You must keep at least \$5,000 in this account. Because this account will replace your current joint-access savings account, you will also have to arrange for any automatic deposits (e.g. salary) or transfers (e.g. bill payments) to link to the new account.

Investing in the managed funds

You can withdraw money if you need it, but you must keep at least \$2,000 in each fund to keep it open. While you can withdraw your money, if you do so within a short period of time (e.g. three years) you might find that the amount of money you can withdraw is less than the amount of your original investment. You will pay a fee for adding to or withdrawing money, and on your account balance each month: see Section 3. Managed funds involve some investment risk and do not guarantee your returns. The value of your investments might not increase as you would like (i.e. they might not give you the return you want), and their value might fall. Changes in financial markets might change the value of your investment from day to day.

Putting \$25,000 in a high-interest at-call joint-deposit account

Consequences of replacing one financial product with another

The high-interest at-call account offers a higher interest rate than your existing account. There are no charges for withdrawing money from your existing account, and no charges for opening the new one. However, you have to keep a balance of at least \$5,000 in that account whereas there is no minimum amount for your joint-access savings account.

Investing in the managed funds

These funds charge higher fees than your joint-access savings account, including fees on any money you put in: see Section 3. For the fund that I have recommended, you will have to pay a 2% contribution fee and a 1.5% management fee in the first year. In effect this means your balance will decrease by 3.5% in the first year, offset by any earnings of the fund.

As you have indicated your desire to increase your money without taking on too many risks, managed funds are an appropriate investment tool for you to consider as, over the longer term, you can reasonably expect a higher return from these investments (although this cannot be guaranteed). While investing in managed funds carries some risk, because of the diversified nature of the funds, the risk is not high. Investing in two managed funds also reduces your investment risk in case one fund performs badly.

The value of your investments in the managed funds can change from day to day and might fall. Accounts like your joint-access savings account or a high-interest at-call deposit account offer more stability on a day-to-day basis. You will pay a product fee to invest in the managed funds I have recommended: see Section 3.

What my advice doesn't deal with

What to do with the \$350 extra you will have each month if you pay off your mortgage

Some of this money can be used to pay for the insurance products I have recommended. Some other uses are:

- saving the money in the DMF Bank high-interest at-call joint- deposit account
- putting extra money into the managed funds products I have recommended.

I can give you advice about this if you want me to, but at an additional cost.

Whether you have enough of the right insurance

You told me that you didn't want any advice about general insurance (e.g. car and house insurance), so my advice does not deal with your general insurance needs. You also told me you didn't want any trauma insurance so my advice doesn't cover that either. I have pointed out how important it is to have the right insurance. I can give you advice about general insurance and trauma insurance if you want it, but at an additional cost.

Tax issues

I am not a tax adviser and can only give you limited advice about tax. You may be entitled to a tax deduction for premiums paid on income protection insurance. I can refer you to a qualified tax adviser about this and other tax issues.

My advice does not consider whether you have enough superannuation for your retirement. I can give advice about this if you want it, but at an additional cost.

Superannuation

Section 3: What else you need to know

This section:

- tells you about fees and any commissions I will get
- explains what product fees you will pay
- answers other questions you might have about my advice.

^ Please also make sure you read the Financial Services Guide (FSG) and ask me if you have any other questions.

What are my fees?

I will charge you a fee of \$1450 (including GST) for my advice and for preparing this SOA. Of this, Planforit will get \$580 and I will get \$870. Please pay this fee within 14 days of receiving this SOA.

What commissions will I get?

I do not receive commissions for the managed funds products I have recommended.

If you follow my advice, the issuers of the personal insurance products I have recommended will pay commissions to Planforit. I will get a share of those commissions. Some products pay a higher commission than other products. The products I have recommended are suitable for you. However, there might be other suitable products that pay a lower commission.

Commissions paid by the product issuer: Personal insurance products

<i>Product</i>	<i>Premium</i>	<i>Upfront commission paid to Planforit</i>	<i>My share of the upfront commission</i>	<i>Ongoing commission paid to Planforit</i>	<i>My share of the ongoing commission</i>
Bygones Income Protection for Joe	\$850.25 for the first year	\$1020.30 (equal to 120% of the premium for the first year)	\$918.27 (90% of the upfront commission)	7.3% per year based on that year's premium	90% of the ongoing commission

The amount of ongoing commission Planforit gets from Bygones depends on the amount of your premium. Suppose the premium for income protection is \$850, then Bygones will pay Planforit \$62.05 (7.3% of \$850) and of this I will get \$55.85 (90% of \$62.05). Bygones will work out the right amount and pay it to Planforit *each month* for as long as you continue to pay the premium.

Notes on ongoing commissions for personal insurance products

Income protection

Life and TPD

There are no upfront or ongoing commissions for these products.

What product fees will you pay?

If you follow my advice, the insurance products and managed funds I have recommended will charge you product fees (see the PDS for each product for full details). Here is what you will pay for your initial investments.

Personal insurance products

Type of cover	Premium payable for the first year*
Data Industry Super Fund—Life and TPD cover for Joe	\$1,750.00 for the first year
Bygones income protection for Joe	\$850.25 for the first year
QRS Super Fund—Life and TPD cover for Sue	\$470 for the first year
Total \$3,070.25	

* Premiums can change from year to year.

Bluebottle Balanced Managed Fund

Fee type	How the fee is worked out	Amount
Contribution fee	2% of your initial investment	\$800 (for your initial investment of \$40,000) Additional contributions fees will apply if you make further investments in the future.
Management costs	1.5% per year on your average account balance	The exact amount depends on your account balance. For example, on a balance of \$40,000, the annual fee would be \$600.

Balanced Alphabet Fund

Fee type	How the fee is worked out	Amount
Contribution fee	2% of your initial investment	\$800 (for your initial investment of \$40,000) Additional contributions fees will apply if you make further investments in the future.
Management costs	1.5% per year on your average account balance	The exact amount depends on your account balance. For example, on a balance of \$40,000, the annual fee would be \$600.

^You might have to pay other product fees. Make sure you read the PDS for each product thoroughly. If you have questions about product fees after reading the PDS, please call me.

Other questions you might have

Am I restricted to an approved product list?

Yes. Advisers (like me) who work for Planforit can only recommend products on Planforit's approved product list. This means that I looked only at products on that list when I prepared your advice, and did not look at other products available on the market. The Planforit approved product list is put together by a Planforit research team and is regularly reviewed. Ask me for a copy of the list if you are interested.

Is Planforit associated with any recommended products?

Yes. Planforit is partly owned by Bluebottle Financial Services, which manages Bluebottle Balanced Managed Fund. Bluebottle Financial Services will benefit (through management and other fees) if you decide to invest in Bluebottle Balanced Managed Fund (see 'What product fees will you pay?').

Planforit is not related to XYZ Financial Services, which manages the Balanced Alphabet Fund. However, we get some free investment research from XYZ Financial Services because we have the Balanced Alphabet Fund on our approved product list.

Planforit is not associated with DMF Bank, Data Industry Super Fund, Bygones Financial Services or QRS Super Fund.

Do I guarantee the managed funds I have recommended?

No. By law, my recommendation to invest in these managed funds must be 'appropriate' for you. However, I cannot guarantee the performance of those managed funds.

Can you change your mind?

Yes. Even after you have paid for the products I have recommended, you might be able to get your money back if you are not happy (this is known as your 'cooling off' rights). Generally, for insurance products and managed funds, you can do this within 14 days of buying the product. The PDS for each product has more information about this.

Does my advice have a time limit?

Yes. My advice expires on 1 September 2013. You should not rely on my advice after that time if you haven't acted on it by then.

Is your personal information protected?

Yes. Information about you will not be given to anyone without your written permission unless the law says we must.

