

Future profits are in today's youth

By Stephen Garrett

THE proposed changes in areas such as superannuation and personal tax announced in the May Federal Budget have created much debate among financial planners, who are increasingly concerned about the way they will operate in the future.

While this has been a discussion point for some time, it seems to me that the Budget may be the trigger for significant and welcome change in the industry. It is change that will create tangible opportunities for building the advice-based financial planning businesses the profession needs.

The impact of the Budget on superannuation strategies and their management has perhaps been one of the more over-emphasised points, possibly in part because the proposed changes were not predicted by our industry or hinted at by the Government beforehand.

While it's true that superannuation may now be more straightforward for some, for most people the development and management of financial investment strategies is more than just super, meaning advice is just as important post-Budget as it was pre-Budget.

The need for financial advice for those approaching, as well as those in, retirement is simply not going to go away.

But advisers should also be prepared to take advantage of other opportunities, including those arising from the Budget.

In particular, I believe that professional financial planning advice will become more attractive to younger Australians, and the profession must be prepared to respond to their needs if financial planning is going to be seen as relevant to more than just the current baby boomer generation.

For example, there has been a strong focus recently from organisations such as the Financial Planning Association on getting younger people to better understand and manage their finances, in particular, recognising the need for long-term approaches to future economic security.



One issue that could have a huge financial impact is the prediction that the younger generation will enter retirement still paying off a primary mortgage.

This, coupled with a general acceptance of debt as a normal part of life, will put them at a great disadvantage in ensuring a financially comfortable future, significantly reducing their ability to fund their own retirement.

It's an area where advisers can provide a high level of advice and added value, and the profession should be willing and able to meet the needs of this group.

Another area of potential growth for financial planners is in wealth accumulation. Younger Australians – particularly those in their 30s and 40s in the higher tax bracket – are arguably the biggest beneficiaries of the Budget, and also stand to gain most from professional financial planning advice.

For example, this group will benefit from lower tax rates, as well as increased tax thresholds, giving many a significant boost to their take-home pay.

Many may have undertaken gearing strategies in the past in lieu of increased superannuation contributions in order to avoid the recently-removed contributions surcharge and reduce their marginal tax rate. These strategies will now require review.

In general, they are unlikely to have put in place complex superannuation strategies, for example, to reduce their reasonable benefit limits, as retirement is still too far away.

While there is a limit to how much of their money they can put in superannuation, thanks to the cap on contributions included in the Budget, everyone in this

demographic will see limits increase, and most will not have reached the maximums of the old limits.

With more money in their pockets, no reasonable benefit limits and higher contribution limits, there are numerous opportunities for superannuation strategies.

In addition, many of them have always had to put aside 9 per cent of their income for superannuation, so having money taken directly from their salary and put into investments is the norm.

Some also have the ability to benefit from the super choice legislation and find funds that better suit their needs and the goals of their total investment portfolio.

Advisers that start to work more closely with this group are building the foundations of a strong client base for the future, which over time will take the place of the current baby-boomer client base that forms the backbone of many of today's financial planning practices.

Regardless of any external changes, true quality of advice will continue to serve our clients well, while attracting younger clients will help financial planners broaden their business base with a much more varied range of clients. In turn, this will encourage more balanced business growth.

It will also help the profession grow and develop.

Adviser groups that increasingly deal with younger clients will be encouraged to employ younger planners that their clients will relate to, creating stronger and clearer career paths for those seeking to enter the profession, such as para-planners and graduate entrants who are coming directly from tertiary education into financial planning, and thus see it as a career.

This can only be a good thing for the financial planning industry as a whole, and it can only be a good thing for our clients, who will continue to seek, and receive, quality financial planning advice.

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