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Trust in action: Applying Ethics in Retirement Advice

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Learning outcomes

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- Reconnect with the FASEA Code of Ethics—its core values and standards—and what they mean in day-to-day practice.
- Spot the ethical pinch points unique to retirement planning, including longevity risk, product suitability, and long-term client interests.
- Apply the Code's standards to realistic retirement scenarios to make and justify sound recommendations.
- Strengthen professional judgement and client trust through clear, client-first ethical advice.

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Topics covered today

1. Applying ethics in retirement advice
2. Gifts to family
3. Balancing immediate versus long-term spending goals
4. Misleading representations of guaranteed income
5. Key takeaways

Dilemma characteristics

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Can involve two or more choices

Decision-making hierarchy core concepts

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1

Levels of authority

Each level has specific decision-making powers and responsibilities

2

Decision rights

Clarify ownership of decisions, reducing ambiguity

3

Information flow

Supports informed decision-making

4

Accountability

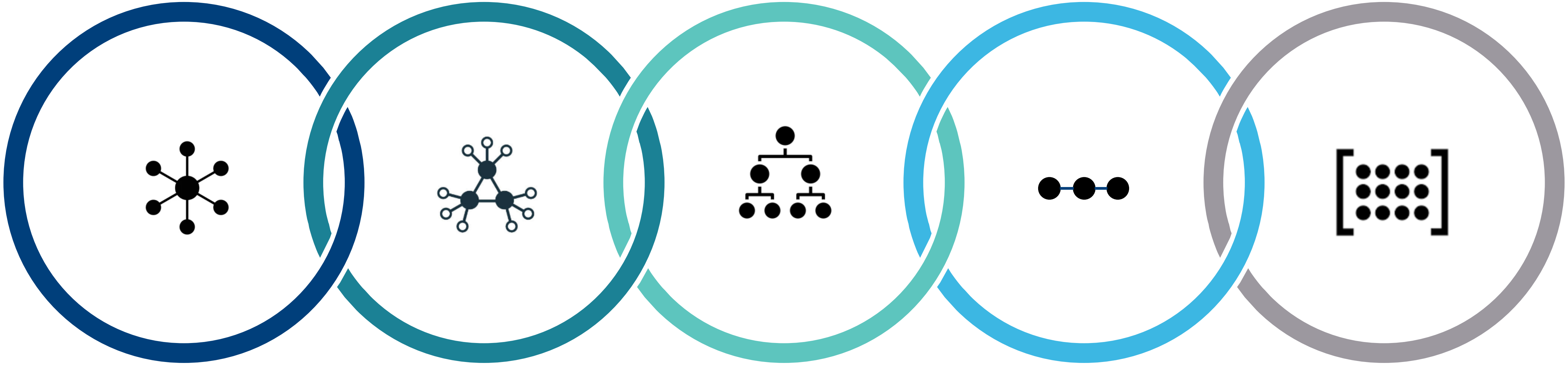
Decisions have consequences and are not made in isolation

5

Decision procedures

Clear procedures promote consistency and fairness in decision-making

Types of decision-making hierarchies



Centralised

Decisions are concentrated at the top levels of leadership

Decentralised

Distributed evenly among multiple layers or units within an organisation

Hierarchical

Follows a strict chain of command, decisions flow from top to bottom

Flat

Fever levels of management, more evenly distribution

Matrix

Multiple decision makers, collaborating on decisions

Impact of having a decision-making hierarchy

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Example decision-making hierarchy

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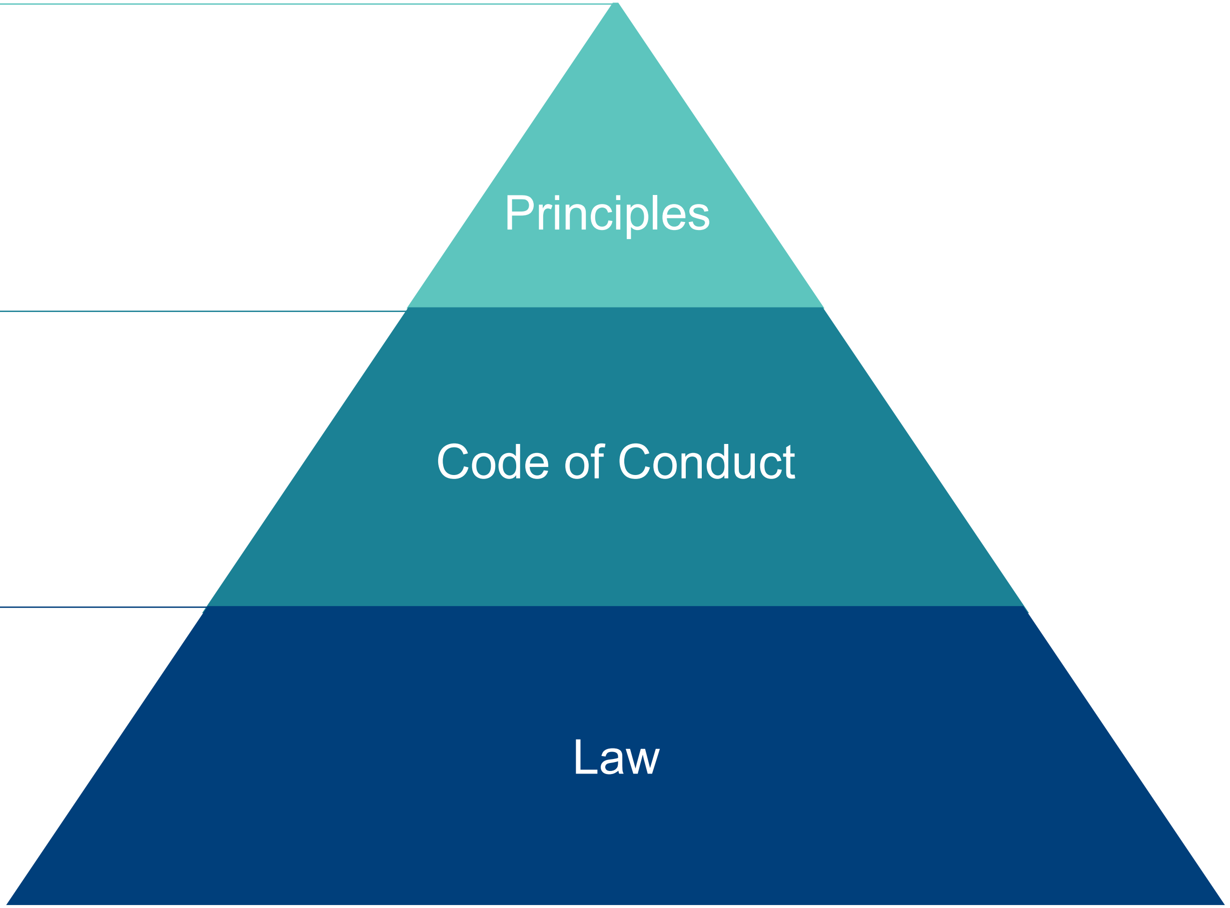
- Higher level of ethical judgement
- Right and wrong
- Systemic analysis

- First checkpoint in any situation involving professional conflict
- 12 standards
- 5 values

- Ethical minimum
- Embodies many of society’s common beliefs and values
- Enforceable rules
- It is not a dilemma if it is breaking the law



Decision-making process

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1 Identify the ethical issue

- Pinpoint the specific issue at hand

2 Gather information

- Collect facts and identify stakeholders
- Norms, values and principles

3 Evaluate alternative actions

- Identify potential outcomes

4 Make a decision

- Consult others
- Refer to the Code
- Select the best option

5 Implement and reflect

- Put your choice into action
- Evaluate the results and learn from the process for the future

Documenting the process

- Identify your client
  - Individual, director, trustee?
- Be objective
  - Factual - avoid emotional language or personal opinions
- Be honest and clear about the ethical dilemma
- Follow company policy
  - if there is a specific process, follow it

Retirement planning requires a different lens

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- Income security
- Longevity risk
- Estate planning
- Capital preservation
- Different income streams
- Cognitive decline
- Social security

Gifts to family

Clients:
- John

Adviser:
- Priya

- John, 65 year old retiree, wants to give his daughter $100,000 to help her buy her first home.
- He is emotionally invested in supporting his daughter but his retirement savings are modest and carefully budgeted to meet his and his spouse's long-term living expenses.
- His adviser, Priya, recognizes that giving away $100,000 could significantly impact John's ability to meet his retirement spending goals.

Priya’s ethical dilemma

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Recommend lump sum gift and risk long term financial wellbeing

Advise a more conservative approach

Advise a more conservative approach and a lifetime income stream to support long term financial wellbeing

Relevant Standards

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Standard 2	Standard 5	Standard 6	Standard 9
• Best interest duty – supporting a large gift that endangers John's financial wellbeing may not be appropriate	• John needs to understand Priya's recommendation, including risks to his own financial security	• Priya needs to understand John's broader circumstances – long term needs and risk of becoming a financial burden on others	• Priya must provide honest, clear and not misleading advice, even if it is not what John wants to hear

Question:

What recommendation would you make in Priya's position?

1) Gift the lump sum
2) Gift a smaller lump sum
3) Gift a smaller lump sum and a lifetime income stream

How Priya should consider the dilemma

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1 Identify the ethical issue

- Lump sum effects John’s long term financial wellbeing

2 Gather information

- Compare current and projected retirement needs, factoring impact of $100,000 gift

3 Evaluate alternative actions

- Clearly communicate the risks and long-term consequences to John.
- Explore alternatives that might allow John to help his daughter without jeopardising his own needs

4 Make a decision

- Document all discussions, advice, and John’s decision-making process
- Seek a second opinion

5 Implement and reflect

- Put the choice into action
- Evaluate the results and learn from the process for the future

Balancing short term versus long term financial goals

Client:
- Allan

Adviser:
- Maria

- Allan (age 65) recently retired from the Australian Defence Force (ADF).
- He is a homeowner with $80,000 in savings.
- He wants:
  - $80,000 p.a. to meet lifestyle expenses,
  - $100,000 cash reserve, and
  - $200,000 to spend on a motorcycle, four-wheel drive and a holiday.
- He is focused on living in the moment right now.
- He's a very active individual however he has sustained some injuries as a result of his time in the ADF.

Maria reviews Allan's affairs

Client:
- Allan

Adviser:
- Maria

- Maria learns that Allan has a DFRDB[1] pension which gives him an indexed pension of $55,000 p.a. plus one of the following options:
  A. Lump sum $350,000
  B. Non-indexed pension of $35,000 p.a.
  C. Non-indexed pension of $30,000 p.a. and a lump sum of $75,000
- Allan is also entitled to a DVA Disability pension of $35,000 p.a.

1. Defence Forces Retirement and Death Benefits, a defined benefit pension paid by Commonwealth Superannuation Corporation.

Maria’s ethical dilemma

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Advise a lump sum that meets immediate financial goals

Advise a lifetime non-indexed pension, foregoing all or some of Allan’s immediate financial goals

Relevant Standards

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Standard 2	Standard 5	Standard 6
• Best interest duty - Maria needs to consider immediate and long-term financial wellbeing	• Maria needs to be satisfied Allan understands the benefits, costs and risks of the recommendation	• Maria must take into account broader, long term interests and likely future circumstances

Question:

What recommendation would you make in Maria’s position?

1) $350,000 lump sum
2) $35,000 p.a. non-indexed pension
3) $30,000 p.a. non-indexed pension and a lump sum of $75,000

How Maria should consider the dilemma

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1 Identify the ethical issue

- Immediate financial goal or extra lifetime income

2 Gather information

- Prioritise goals with Allan – what's more important?
- Does he need or want an extra source of lifetime income?

3 Evaluate alternative actions

- Clearly communicate the risks and long-term consequences of each option
- Explore alternatives – is Allan willing to forego his immediate financial goal?

4 Make a decision

- Document all discussions, advice, and John's decision-making process
- Seek a second opinion

5 Implement and reflect

- Put the choice into action
- Evaluate the results and learn from the process for the future

Misleading impressions of ‘guaranteed income’

Client:
- Mei

Adviser:
- Steven

- Mei, 60 year old retiree, approaches her financial adviser, Steven, seeking ‘guaranteed income for life’.
- Steven is not across the range of lifetime income products in market. He is aware of one annuity product that advertises ‘guaranteed income for life’ but he is not confident in its mechanics.
- Under certain market conditions, the income paid to Mei could be negative in some years due to product structure, the nature of the income and fees.
- Despite this uncertainty, Steven recommends this product to Mei, believing it will meet her needs as it is designed to pay ‘guaranteed income for life’.
- He does not fully disclose the potential for negative income years, nor does he seek further information or professional advice before making the recommendation.

Steven's ethical dilemma

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Proceed with the recommendation

Pause the recommendation and:
- Research other products, or
- Refer Mei to another adviser

Relevant Standards

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Standard 2	Standard 5	Standard 6	Standard 7	Standard 9
• Proceeding with a recommendation Steven wasn’t sure about could be seen as prioritising his own convenience over Mei’s welfare	• Recommending a product with potential negative outcomes without full disclosure would not be in Mei’s best interest	• He needed to have taken into account the broad effects of his advice on Mei’s circumstances - what happens when (not if) the income is negative?	• Full disclosure of all relevant product features, including risks, is essential for Mei’s informed consent	• Recommending a product he doesn’t understand breaches this standard (good faith and competence).

How Steven should consider the dilemma

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1 Identify the ethical issue

- Recommend a product that provides 'guaranteed income' or pause the recommendation and conduct further research and/or refer

2 Gather information

- Consult with a specialist to fully understand features and risk of negative income years
- What does 'guaranteed lifetime income' mean to Mei?

3 Evaluate alternative actions

- Refer Mei to a specialist in retirement planning advice
- Research alternative products
- Other options

4 Make a decision

- Document all discussions, advice, and Mei's decision-making process
- Seek a second opinion

5 Implement and reflect

- Put the choice into action
- Evaluate the results and learn from the process for the future

Key takeaways

Decision making hierarchy and process

Know your obligations

Consider long-term client interests

Stay informed

Communicate clearly

Build trust and professionalism

Questions?

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