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Aims and objectives

With an evermore complex financial system, an increasing emphasis on self-funded retirement for Australians, the increasing size of Australia's managed funds pool, and persistent evidence of financial illiteracy, the importance of financial planning is clear. The financial planning profession needs an academic platform for discourse on the issues of individual personal financial planning and wealth management, where issues of practice and policy can be debated with rigour, independence and evidence. Prior to the Financial Planning Research Journal (FPRJ), no journals fitted into this niche to provide a forum for dissemination of research in the specific area of personal finance and investments in the Australian context.

The context of personal finance and investments for Australia is different from the rest of the developed economies because of the presence of mandatory superannuation, a large managed funds pool and a strong social security system. Because of these factors international journals in the area of personal finance and/or investments may not suit an Australian audience. In addition, the rapid developments in regulatory and professional standards within the context of personal finance suggest there should be some interest in, and need for, independent, peer-reviewed research in this area.

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  As an example…….....
  ……..…. (Beck, 2010, p. 44)

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  Journal articles: Knight, J. and Shi, L. (1996) 'Educational attainment and the rural-urban divide in China', Oxford Bulletin of Economics and Statistics, 58:1, pp. 83-118.

  Internet source: Henry, K. (2004) Australia China Economic Directions – Long Term

  Trends in the Australian Economy (unpublished speech at the Australia China Free Trade Agreement Conference, Sydney, 12 August), http://www.treasury.gov.au/documents/875/PDF/Australia_China_FTA.pdf (accessed on 04/01/2005).

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From the editors

2017 is one sixth of the way through and it has already given so much—Trump, heatwave records in Australia, US equity market all-time highs, a new Australian political party, the passing of the key pieces of financial services regulations (professional standards, education and life insurance), and (once again) Trump. With this landscape of such an interesting start to the year, we are pleased to present Volume 3, Issue 1 of the Financial Planning Research Journal (FPRJ), the journal of the Financial Planning Association of Australia.

As 2017 marches on we will encounter a range of seemingly unprecedented social, political and financial events. With key European elections to be held, the Brexit path unfolding, US policy change and market volatility, the prospect of further political uncertainty in Australia, new regulation being implemented, the debate on superannuation and tax reform continuing, forecasting is certainly the domain of the brave. Indeed there seems to be a growing chorus of commentators and market participants suggesting financial services and markets are at some kind of tipping or inflection point. At a minimum, 2017 will be a year we will look back on and either applaud or regret the decisions made.

On the professional standards and education side, we look forward to the forming of the new Standards Board and clarity around terms in the legislation like 'relevant' and 'equivalent'. All in all, there are certainly a range of issues that need attention/progression in 2017 (and beyond) and the FPRJ looks forward to examining some of these in detail as a platform for the dissemination and debate of research in this area.

This issue contains five articles that once again cover a range of topics. We are also pleased to partner with STEP to include our first 'special papers sections' with two papers presented at the 2016 annual STEP conference. Special thanks to Professor Adam Steen and Michael Perkins for working with FPRJ on this project.

The first article in this issue by Julie Knutsen, Mirela Malin, Tracey West and Mark Brimble presents a study of common psychological errors common to both golf and financial behaviour. A range of research regarding overoptimism, overconfidence and emotional judgements is outlined showing potential for improving not only golf play but also financial planning. The second paper in this edition is by Sharon Taylor, Suzanne Wagland and Amanda Taylor regarding factors that predict success in the Australian version of the Certified Financial Planner (CFP®) certification program with positive correlation found between gender and the number of exemptions granted.

The third paper by Loretta Iskra and Ciorstan Smark looks at sequencing risk for baby boomers who have superannuation in industry superannuation funds and investigates the impact of financial market volatility on retirement outcomes.

The fourth and fifth papers are in a special section of the journal dedicated to papers presented at the 2016 annual STEP conference. The first of these STEP papers is by Olivia Falkiner, Adam Steen, John Hicks and Deirdre Keogh, which examines the current status of succession planning in Australian farming and finds that a significant proportion have no succession plan. This research underscores the need for financial planners to become involved in succession issues including those involving farming families. The second STEP paper is by Rod Genders and Adam Steen and focuses on the complications that are current and emerging regarding estate planning and administration of 'digital assets'. The paper investigates the current legal issues regarding digital assets and argues for legislation to be developed to assist fiduciaries to discharge their duties.

Finally, we would once again like to thank the FPRJ editorial board, our reviewers and the production team for their contribution to this edition. The time and effort required to deliver a journal edition is significant and without all your efforts their efforts FPRJ simply would not happen. Particular thanks to Di Johnson, Joy Lin, Sian Jones and Laura Phoenix.

We hope you enjoy the fourth issue of the Financial Planning Research Journal.

Professor Mark Brimble and Dr Rakesh Gupta

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TRUE LINKS: PRECURSORY LESSONS FROM GOLF FOR EFFECTIVE FINANCIAL BEHAVIOUR

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ABSTRACT

This article presents the results from a preliminary study which finds there are three psychological errors common to golf and financial behaviour which are the cause of unfavourable outcomes, namely overoptimism, overconfidence and emotional judgements. To manage these errors, this study finds the same strategies used to improve golfing decisions could carry over into our understanding of effective financial behaviour. Further, linking the research of effective golf play with effective financial behaviour leverages upon a worldwide interest which we argue has the potential to provide a range of analogies and visual clues for financial education and financial planning.

Introduction

The play-off between the global financial crisis and recovery provided academia with an abundance of data and opportunity to argue a position for effective financial behaviour. Yet, despite the research output, certainty surrounding the best approach is still … in the rough. However, golf and money often go hand in hand, and this study shows the approaches employed by elite golfers are portable and useful solutions for effective financial behaviour. For instance, emerging from both the science of golf and financial behaviour, similar causes of unfavourable outcomes are shown to stem from psychological errors like overoptimism, overconfidence and emotional judgements. Conversely, emotional control and conscientious commitment to goal setting, planning, practise, evaluation, minimising risk and seeking quality advice are factors employed by elite golfers to improve performance. Hence, it is argued the learning from the science of golf and its portability to the science of effective financial behaviour are worthy of making the cut amongst a field of core financial research.

Motivating this study is a quote from the book, *The Physics of Ball Games*, by C.B. Daish, (1972, p. 3) which illuminates a link between golf and financial behaviour:

> As for the players themselves: hard-headed, quick-thinking men of affairs are to be seen daily on any golf course, bring to this pursuit a highly commendable zeal but, all too often, a singular lack of skill, and displaying, from time to time, such gross errors in decision-making which, were they to be carried over into their everyday business affairs, would be guaranteed to ruin them overnight.

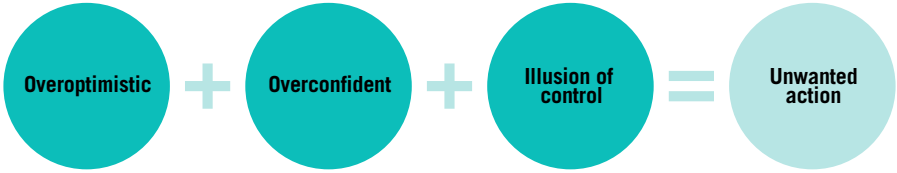
If this were true, could the learning from effective golf play be carried over into everyday financial decision-making and solve ineffective financial behaviour?

Literature review

Commencing with a review of the literature from the field of golf and financial behaviour, this article then presents the results of a high-end focus group of golf professionals, established finance academics, respected financial service professionals and career investors. Each has a strong interest in the science of golf and improvement of their game. Dimensions of good golf, including effective and proven strategies, are investigated and true links are made between these strategies and effective financial behaviour. This investigation provides a rich contribution to both fields of literature.

Figure 1 illustrates the three psychological errors of overoptimism, overconfidence, and emotional judgements, found commonly throughout financial behaviour literature as well as in this study to result in unfavourable financial outcomes, are also seen to explain poor golf performance.

Figure 1. Three psychological errors common to ineffective financial and golf behaviour



From the Financial Behaviour Perspective

Overoptimism is one of the best documented psychological errors (Montier, 2002) and found to occur when people overestimate the frequency of favourable outcomes and underestimate the frequency of unfavourable outcomes (Shefrin, 2007). For instance, this occurs when individuals overoptimistically believe their children are especially talented (Sharot, 2011). While optimism is important for driving hard work and the investment of time needed to improve performance, expectations and outcomes, extreme optimists display financial habits and behaviour not considered prudent (Shefrin, 2005) and it can affect financial decisions (Ashton and Roberts, 2005; Coval and Thakor, 2005; Heaton, 2002; Puri and Robinson, 2007; Shefrin, 2005).

Overconfidence happens when people are convinced they are better than they actually are (Shefrin, 2007). Psychologists show that overconfidence causes people to overestimate their knowledge, underestimate the risks, exaggerate their ability to control events, and likely to take credit for positive financial outcomes and blame others or bad luck for negative financial outcomes (Barber and Odean, 2001; Einhorn, 1980; Fischhoff, Slovic and Lichtenstein, 1977; Griffin and Tversky, 1992; Malmendier and Tate, 2005; Nofsinger, 2001; Shefrin, 2007; Yates, 1990). This is a common reaction on the golf course too (Vara, 2007).

Emotional judgements, referred to as an illusion of control by Montier (2007), relates to an individual's belief in their influence over the outcome of uncontrollable events. Presson and Benassi (1996) conclude the illusion of control is more likely to occur when many choices are available and there has been earlier success at the task. Similarly the hot-hand fallacy (term arising from basketball) shows that basketball players and fans believe that a player has a greater chance of hitting a shot if the previous shot was a hit, than if the previous shot was a miss (Gilovich, Valone and Tversky, 1985). Also linked to the illusion of control is the illusion of knowledge (Montier, 2007). The illusion of knowledge Montier (2007) describes as thinking you know more than everyone else. The illusion of knowledge, as with the illusion of control, Montier (2007) argues will lead to overoptimistic and overconfident behaviour.

From the Golf Behaviour Perspective

The research on golf performance presents a range of useful comparisons. For instance, mental fitness and managing one's thinking has been studied in relation to golfers and their management of overoptimism and overconfidence (Baker, Horton and Pearce, 2005; Binsch *et al.*, 2009). Behavioural factors are found by Baker, Horton and Pearce (2005) to be equally important for good golf once the technical aspects of golf are known. In the same vein, Hill *et al.* (2011) found the behavioural decisions made on the course determine good golfers. Examples of strategic decisions made on the course are described by Ericsson (2001), who found professional golfers manage their decision-making by considering not only the immediate shot in play but also the previously played strokes on each hole and how their previous decision impacted on their score. As with financial behaviour, these insights show how dynamic and layered the psychological aspects of golf are.

Studies such as Crust and Keegan (2010) found women golfers manage overconfidence and overoptimism differently to male golfers with women showing more adversity to risk on the course than the men. However, high performance golfers like Tiger Woods may adopt risk-averse behaviours on the course to avoid negative thinking after taking a risky shot that didn't pay off (Forsyth, 2003; Pope and Schweitzer, 2011). Likewise, managing the illusion of control has been studied in relation to maintaining greater levels of golf skill. For instance, Hayslip, *et al.* (2010b) found the greater use and management of one's thinking reflected in greater levels of golf skill.

In the same vein market commentators have drawn links between how behaviour in golf translates to behaviour in the boardroom. Professional golfers and elite business people agree the problem-solving, coping skills and ethical conduct demonstrated on the golf course are reflective of how an individual handles a business situation (Vara, 2007). Many professional golfers such as Greg Norman, Bobby Jones and Brian Davis have reported rule infringements on themselves during competition and received penalties, demonstrating the ethical conventions of golf (Rubenstein, 2010). Experienced and novice golfers are likewise wary in business dealings of those who do not follow these ethical conventions on the course. Warner (2008) says that clients and associates of Bernie Madoff would have benefited from investigating his golf scores—they were too consistent to be believed.

Additionally, Melton and Zorn (2000) investigated the risk-taking behaviour of professional players on the PGA tour to see if the ranked-order prize money influences performance. They hypothesised, using tournament theory, that observations in golfer behaviour may translate to behaviour for managerial pay. They found that golfers who were lower down in the order took greater risks in order to catch up, encouraged by the asymmetrical prize structure. This was evidenced by a greater cross-sectional variation in scores than those in the top quartile. While they recommended that further research be undertaken, they stated their results were similar to that of Brown, Harlow and Starks (1996) who found that fund managers in losing funds take on more risk than winners.

Similarities in Corrective Approaches: Golf vs. Financial Behavioural Contexts

Corrective approaches such as goalsetting, a willingness to receive a critical evaluation of their performance, the propensity to plan for the future and a conscientious commitment to practice and improve their game are adopted by elite golfers and, in turn, counter the influence of overoptimism, overconfidence and emotional judgement in their game (Cohen, Tenenbaum and English, 2006; McCaffrey and Orlick, 1989). The golf coach can play an important role in helping the player with techniques and tools to control emotions and achieve psychological improvements, confidence and self-efficacy (Cohen, Tenenbaum and English, 2006; Dunn, 2009; Hayslip *et al.*, 2010a; Hellstrom, 2009). Good coaches have been shown to provide learning opportunities that help to strengthen the mental control over emotions and develop effective coping strategies (Hellstrom, 2009; Weinberg, Butt and Culp, 2011).

Similarly, financial education is found by Joo and Grable (2004) to be a consistent factor amongst those who practise desirable financial behaviour, and were more aware of risk and more capable of making strategic financial decisions. Knutsen and Cameron (2012) contend that a good financial coach will raise efficacy expectations and are more likely to be the major determinant of people's better financial choices.

An overview of concepts emerging from this literature is summarised in Table 1. The links between the two studies of golf and financial behaviour were found to have merit and warranted further exploration. Also shown in Table 1 are themes emerging from the data and presented with the results.

Table 1. Comparison of concepts and themes emerging from the literature and focus group data

Concepts Emerging from the Literature		Themes Emerging from the Focus Group	
Psychological Errors Affecting Financial Decisions	**Error Management Strategies Employed by Elite Golfers**	**Observations of Error Management for Better Golf**	**Error Management - Golf vs. Financial Behaviour**
Overoptimism Over- or underestimate the frequency of favourable and/or unfavourable outcomes. (Ashton and Roberts, 2005; Sharot, 2011; Shefrin, 2007).	*Managing overoptimism* Develop a willingness to be coached. Strengthen mental control by conscientiously committing to improvement (Cohen *et al.*, 2006; Hayslip *et al.*, 2010a; Hellstrom, 2009).	*Managing overoptimism* Quality coaching can get you over the water and nearer the target. Commit to pre and post shot routines rather than dwelling on the leaderboard.	*Managing overoptimism* As with golf, if you have a bad experience, you learn and progress. To reach the pin, with golf and financial planning, quality advice is critical.

Table 1. continued

Concepts Emerging from the Literature		Themes Emerging from the Focus Group	
Psychological Errors Affecting Financial Decisions	**Error Management Strategies Employed by Elite Golfers**	**Observations of Error Management for Better Golf**	**Error Management - Golf vs. Financial Behaviour**
Overconfidence Belief they are better than they actually are, exaggerate their ability to control events and blame. (Shefrin, 2007; Barber and Odean, 2001; Fischhoff, Slovic and Lichtenstein *et al.*, 1977).	*Managing overconfidence* Manage one's thinking by planning to reach the target. Consider immediate shot in play and impact of decisions from previous play. (Baker, Horton and Pearce *et al.*, 2005; Binsch *et al.*, 2009; Hill *et al.*, 2011).	*Managing overconfidence* Maintain focus on target rather than focusing on trying to avoid an action. Manage thinking by planning to minimise bad shots and analysis of facts to play effectively.	*Managing overconfidence* Like the successful, wealthy, good golfers know, bad golf cannot be rectified with blame. Instead, operating effectively requires careful analysis of fact prior to making financial decisions.
Emotional judgements Create an illusion of control, believe to have influence over uncontrollable events built from earlier successes. (Montier, 2007; Presson and Benassi, 1996).	*Managing emotional judgement* Adopt risk-averse behaviours to manage the impact of negative thinking created from prior unwanted outcome. (Forsyth, 2003: Pope and Schweitzer, 2011).	*Managing emotional judgement* Top golfers focus on one shot at a time. To minimise loss, good golfers are more likely to play safe, leaving the ball short of the hole to avoid difficult follow-up putts	*Managing emotional judgement* People forget about probabilities. Like golf, better to play safe and putt for par.

Method

This exploration used a qualitative method to draw out the initial constructs and to retain a good science approach, Guba and Lincoln's (1981) factors of research rigour, namely applicability and truth value were used to validate the data. For instance regarding applicability, a focus group session consisting of 12 participants was formed. The participants included: three golf coaching professionals from a golf coaching centre, each with over 40 years golfing experience; six academics with golf experience and/or research expertise in finance, financial planning and the biomechanics of golf; and three golf players with separate qualifications in financial planning, sports massage and accounting. The participant selection was underpinned by Guba and Lincoln's (1981) argument that subject selection should be driven by their ability to represent a slice of the world being studied. Hence, the mix of participants and their ability to articulate their experiences were considered applicable to inform the study.

Regarding truth value in the data, this status is attained when those people, having the experience, immediately recognise the content when presented with it and the subject's validation of the interpretation provides an authentic layer of credibility against which the qualitative data can be evaluated (Guba and Lincoln, 1981). Consequently, drawn from the literature, semi-structured questions (as shown in Table 2) were created and posed to the participants. Then, over three hours, the questions were used to explore the participants' experiences with golf, the potential links to effective financial behaviour and whether their learning from golf could carry over into better financial behaviour. The responses were recorded and transcribed. To apply the truth value test, a transcript of the focus group discussion was forwarded within 12 days following the event and the participants verified the accuracy of the data.

A thematic analysis followed whereby themes emerging from the data were filtered using a matrix which qualitative researchers Corbin and Strauss (1990) consider useful for data ordering and capturing qualitative concepts. The themes were then analysed in light of the literature.

Table 2. Focus Group Question Guide

Theme	Questions
General Lessons from Golf	How do the dimensions of good golf apply to effective financial behaviour? What lessons have you learned from your golf game: a) technically b) behaviourally c) by observing professionals versus amateurs on the course versus at the driving range, d) your game strategy compared to professionals?
Errors	What are the common mistakes/pitfalls that players make/ fall into trying to improve their game? What common mistakes/pitfalls have you made trying to improve your game?
Strategies	What strategies [and outcomes] have you attempted to correct your game? How successful were the strategies? From this experience [above] how would you now describe the dimensions of good golf?
Coaching	How important has the role of your golf coach been in terms of: a) changing misconceptions about your approach, b) correcting your approach and/or knowing what to correct, and c) developing your self-efficacy about making good golf decisions?
Golf vs. financial behaviour	Understanding that golf and financial success are both target games, how do: a) the mistakes/pitfalls of golf compare to financial behaviour, b) the strategies to correct the golf game compare to corrections needed for effective financial behaviour, and c) the dimensions of good golf compare to the dimensions of effective financial behaviour?
Ethics	From your observations of golf ethics, particularly of those that have embedded it into their game and those that haven't, would this be indicative of their ethical financial behaviour?

Results

The study found the learning from similar behaviour, strategic thinking and decision-making employed in good golf play could carry over into our understanding of effective financial behaviour. In doing so, ineffective financial behaviour stemming from psychological errors such as overconfidence, overoptimism and emotional judgements could be managed in the same manner as is done with good golf.

Strategically, the professional golf participants concurred with the studies by Binsch *et al.*, (2009) and found that, when playing, they perform better when their focus is on the target, rather than focusing on trying to avoid an action. For instance, one confirmed: "Professional golfers have a strategy" and, "They are looking at where they aim". Another stated: "Reaching the target is a function of minimising bad shots". Similarly, the financial behavioural literature suggests that, while intuition and experience are valuable, when making financial decisions there is no substitution for careful analysis of facts to operate effectively (Shefrin, 2007; Slovic *et al.*, 2002).

Behaviourally the observations of the academics with an interest in golf and financial behaviour aligned with Shiller (2000), finding that unfavourable financial outcomes were often the result of emotional judgements. As one academic related: "The first time I played golf, I parred the first hole, then, over-optimistically expected the same result thereafter. But, emotion and stubbornness set in and it took three years to get another par". To control their emotions, the professional golf participants said: "Top golfers focus on one shot at a time and commit to pre/post shot routines rather than dwelling on the leaderboard". Linking between golf and financial behaviour research, one participant proposed that: "A person's behaviour on the golf course is indicative of behaviour in everyday life (including their financial life). As with golf, if you have a bad hole, you learn, then clear it from your mind, and get to the next hole." The golf coaches confirmed: "Like the successful, wealthy, good players know that good golf is rarely about luck and bad golf cannot be rectified with blame".

The decisions made by professional golfers when putting were found to offer insightful comparisons. For instance, an analysis of the risk-taking behaviour of professionals playing tournament golf found they are less accurate when putting to achieve a 'birdie' or an 'eagle' (one or two under par, respectively) than when attempting shots for par or over (Pope and Schweitzer, 2011). One participant contended that less accuracy also occurs with investment decision-making when people are convinced they are better than they actually are, arguing that: "People forget about probabilities" and, "They overestimate their knowledge, underestimate the risks and exaggerate their ability to control events." In response, the professional golf coaching participants stated that good golfers hit birdie putts less hard, to avoid a loss, compared to how they hit par putts. In doing so, they are more likely to play it safe by leaving them short of the hole in order to avoid difficult follow-up putts. Collectively, the group agreed that playing safe applies to both golf and financial behaviour and, like golf, while intuition and experience are valuable, when making financial decisions there is no substitution for careful analysis of facts to operate effectively.

Other insightful comparisons were made about the importance of a good coach and, in relation to both golf and financial objectives, quality advice was said to be critical. One professional golf coach remembered a student of his who kept hitting the ball into the water: "When I recommended they use a different club, they hit the ball over the water and nearer their target". In response, the lecturer in financial planning confirmed, without good advice, there is a tendency to repeat the same financial errors over and over again. The financial planning lecturer said she has both a coach for golf and for financial planning: "To have more time for golf I need a good financial plan. To get closer to the pin, both with golf and my financial planning, I have benefited from quality recommendations from skilled advisers".

Discussion

These preliminary findings offer salient links between the behaviour, strategies and decision-making employed in good golf and effective financial behaviour. As with the comparison of literature, the group made links between golf and financial decisions in relation to each of the three psychological errors: overconfidence, overoptimism and emotional judgement. The group also found the strategic thinking used by elite golfers to manage these errors could also apply to correcting ineffective financial behaviour. The strategies considered useful are summarised in Table 1 and interpreted as follows:

Overoptimism with elite golfers is managed by being willing to receive quality advice from an experienced coach and being coached on pre and post shot routines rather than focusing on the leaderboard. Coaching a player to select a more appropriate club to counter the risks associated with certain hazards on the course is, we suggest, a useful analogy in both financial education and financial planning contexts. Firstly, in relating the importance of selecting the most appropriate investment to manage the risks encountered in the market. Secondly, in urging the benefits of quality advice from an adviser whose experienced guidance is more effective than relying on overoptimistic financial decision-making. Further, lessons about consistent pre and post shot routines rather than focusing on a changing leaderboard, we suggest, are useful analogies relating to the importance of good, consistent financial set-up and consistent review of financial planning as opposed to blindly following a popular or temporary trend.

Overconfidence with elite golfers is managed by analysis and planning to reach their target rather than falling prey to overconfident thinking. This lesson from elite golfers offers a meaningful analogy relating to the similar attention needed to build confidence in effective financial decision-making. Hence, we suggest such an analogy is a meaningful, visual clue which could be used in financial education and financial planning contexts to explain the importance of planning and analysis to prevent being derailed by uninformed financial decision-making.

Emotional judgements are prevented among elite golfers by risk-averse decisions such as playing safe and avoiding difficult follow-up shots. This is most noticeable when the risk of unwanted action is high. We suggest this lesson from elite golf provides a meaningful analogy to reinforce the need to remember the risk of probabilities with financial decision-making. Hence, in financial education and financial planning contexts the same visual clue could be used to reinforce the value of investing safe when the risk is high and probabilities uncertain.

Conclusion

The play-off between the global financial crisis and recovery provided academia with an abundance of opportunity to argue a position for effective financial behaviour. Yet, the psychological errors such as overoptimism, overconfidence and emotional judgement continue to derail financial behaviour. The closing comment from one professional golf participant in this study captured the conclusions drawn by the research team on the true links between golf and financial behaviour. Like good financial behaviour, he concluded: "Good golf is about minimising bad shots, not about hitting great shots. It's about getting the best you can from what you've got, rather than risking everything to win".

In terms of practical application inside and outside academia, the interest in golf and financial performance is worldwide. While it is acknowledged these observations are made from only a preliminary investigation, we argue there are avenues for further research into a practical application of approaches adopted by better golfers to counter the psychological errors of overoptimism, overconfidence and emotional judgement that derail financial behaviours.

Importantly, it is anticipated that further research linking the strategies that are employed in effective golf play with effective financial behaviour leverages upon a worldwide interest which we argue has the potential to provide a range of analogies and visual clues for financial education and financial planning. For example, empirical analysis in the financial education and financial planning contexts could test, firstly, whether a) effective financial coaching in relation to selecting the most appropriate investment to reach a financial target and/or pre and post financial decision-making routines are counter strategies for overoptimistic financial behaviour, b) financial analysis and planning are counter strategies to overconfident financial behaviours and c) risk-averse decisions are counter strategies for preventing the impact of emotional judgement. Secondly, whether golfing analogies, such as those highlighted in this study, do provide effective visual clues in the same financial education and financial planning contexts to reinforce the usefulness of these strategies to counter the psychological errors found to cause ineffective financial behaviour.

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THE DEMOGRAPHICS THAT PREDICT SUCCESS IN THE AUSTRALIAN CERTIFIED FINANCIAL PLANNER (CFP®) CERTIFICATION PROGRAM

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ABSTRACT

Recent ethical concerns in the financial services industry have prompted renewed calls for reform in the area of professionalism of financial advisers. The Certified Financial Planner (CFP®) certification program exists as part of the ongoing educational and ethical framework established by the Financial Planning Association. While research has been undertaken in relation to the international versions of the same program, to date the factors that predict success on the Australian version have not been examined. This project used data collected from the program enrolment forms which were accessed after permission was obtained from the Financial Planning Association. As many of the samples did not provide the required points of data, 109 complete data sets were analysed as a pilot study using cross-tabulation in SPSS with a chi-square 0.5 level of significance. The results of this pilot study suggest success in the Australian CFP® certification program is positively correlated between gender and the number of exemptions granted.

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Introduction

In light of financial collapses, poor advice and massive compensation payouts from Macquarie Bank Ltd (Macquarie), Australia and New Zealand Banking Group Ltd (ANZ), National Australia Bank Ltd (NAB) and Commonwealth Bank of Australia (CBA) (Sydney Morning Herald, 2016), the financial services industry is striving to be seen as professional. It is believed better education and ethical standards will help to win back customers' trust in the industry's ability to manage their finances more competently.

As a means of ensuring professionalism in the financial services industry, the Financial Planning Association (FPA) is leading the way in raising educational standards. From 1 July 2013, the FPA has required new members to have an approved degree before undertaking the CFP® Certification Program. The FPA suggests raising the educational bar will provide members the 'gold standard' when it comes to financial advice (FPA, 2013).

However, there appears to be no research to support the assumption that a degree entry to the CFP® Certification Program will provide better outcomes and, in turn, more capable financial planners.

The motivation for this research came as a result of reading similar studies undertaken in the United States such as Grange, *et al*. (2003) and its follow-up in 2005 which explored the factors that predicted success in the CFP® Certification exam. A review of the literature indicated that, to date, no similar studies had been undertaken in Australia. There was a significant gap in the existing literature, with none providing insight into the variables that predict success in an Australian context. This paper provides a first look into the Australian CFP® Certification exam results and how they correlate to the educational background of students, providing evidence as to how students with an approved degree perform in the CFP® Certification Program. The outcomes of this research will inform the professional body and tertiary educational institutions providing courses in financial services, better enabling them to prepare their students for the challenges of the CFP® Certification exam. It will also better inform students and their employers, in turn, enhancing their chances of success in the CFP® Certification exam. In addition, this research has examined the relationship between demographic factors other than educational status on entry to, and success in, the CFP® Certification Program. These additional factors include age, gender, geographical location and employment role.

Literature review

What can be learnt from other professions?

There are many different types of professions: for example, auto mechanics, project managers, software experts, medical professionals, chefs. However, the common denominator across these professions is certification—an indication that each profession has specific skill sets considered important in that field. Acknowledgement of these skills takes the form of accreditation or documentation indicating that the professional has the skills or qualifications that satisfy the minimum standards or qualifications required in their specified field. This certification is usually issued by an organisation with recognised expertise in the field able to guarantee that the professional has met the required education or qualification. The Professional Standards Council (PSC) aims to protect consumers by improving professional standards and is in keeping with the FPA's Certification Program's goals and objectives (PSC, 2017). The PSC defines a profession as:

> a disciplined group of individuals who adhere to ethical standards. This group positions itself as possessing special knowledge and skills in a widely recognised body of learning derived from research, education and training at a high level, and is recognised by the public as such. A profession is also prepared to apply this knowledge and exercise these skills in the interest of others. Professionals are governed by codes of ethics, and profess commitment to competence, integrity and morality, altruism, and the promotion of the public good within their expert domain. Professionals are accountable to those served and to society.

Furthermore, in a rapidly changing world where knowledge and technology are increasing exponentially, education and skills will change according to the needs of a profession and, as a consequence, professional certification attesting to the expertise of the individual will also change within each profession.

Certification, in most career fields, involves an application process that takes many factors into consideration, including training, experience, references and other factors. Some certification further requires background checks. What is common is the requirement to meet a certain standard to apply for certification in the first instance, with an ongoing expectation, once certification has been attained, of continual learning, skill and professional development. Professionals with a specific qualification indicate a mark of high competence and quality of knowledge in their specific area. For example, a Certified Practising Accountant (CPA) is a professional accreditation that ensures a depth and breadth of quality knowledge in finance and accounting. The CPA accreditation is widely regarded by employers and is an internationally recognised qualification. To receive a CPA accreditation in Australia, an individual must complete a degree or a postgraduate award recognised by CPA Australia and then complete the CPA Program, which comprises four compulsory subjects, two electives and a practical component that provides the relevant skills, including three years of professional experience in finance, accounting or business. In addition, CPAs must undertake continuing professional development (CPD) each year to maintain their skills and knowledge and keep abreast of changes and emerging technologies within their industry. Furthermore, they must comply to a strict code of conduct (CPA Australia, 2015).

The Australian legal profession similarly demands certain eligibility requirements for admission as an Australian lawyer. In NSW, the Legal Profession Admission Board issues a compliance certificate to an individual who has attained the academic qualifications and satisfactorily completed the practical legal training requirements specified by the Legal Profession Uniform Admission Rules 2015 (NSW), and who is deemed a fit and proper person to be admitted to the Australian legal profession. Upon gaining admission as an Australian lawyer in New South Wales or another Australian jurisdiction, a person is then eligible to apply to the Law Society of NSW for a practising certificate to practise as a solicitor, or the NSW Bar Association to practise as a Barrister. Other states and territories follow similar certification pathways (Law Society NSW, 2015).

The financial services industry, in comparison to more traditional professions, is relatively new and many countries, including Australia, have had difficulties achieving professionalism within the industry. Many of these difficulties are the result of poor financial advice—a by-product of low levels of education and limited regulation within the financial services industry.

The International Experience in Financial Services

Adding to the confusion of clients seeking reliable and useful advice is the number of different designations around the globe. The Financial Planners Standards Council of Canada (FPSCC) is a not-for-profit standards-setting and certification body. By contrast, the 'Personal Finance Planner' (PFP) (www.fpsc.ca) was created for bankers, but is not particularly relevant as **independent financial advisors or planners**. The Professional Financial Planning Course (PFPC) is not a standalone designation, and the courses provided have now been discontinued. By contrast, **the Certified Financial Planner (CFP)**, and the **Registered Financial Planner (RFP)**, are both internationally recognised and regulated by the Financial Planning Standards Board (FPSB) which adheres to strict regulations and ethical standards designed to protect consumers. The CFP and RFP both require a minimum level of work experience, as well as continued education and testing to maintain their designation.

In the US there are again numerous designations accredited by the National Commission for Certifying Agency, including: Accredited Retirement Plan Consultant (ARPC), Certified Financial Planner (CFP), Certified Medicaid Planner (CMP), Certified Retirement Counsellor (CRC), Certified Retirement Financial Advisor (CRFA), and Certified Senior Advisor (CSA). In the US, financial planners entering the industry come from many different educational and professional backgrounds. However, many are investment advisers preferring to provide or recommend a narrow range of products, at times offering products that aren't securities. These investment advisers are not financial planners able to assess all aspects of their clients' financial lives and develop detailed strategies or financial plans to advance their clients' financial goals (US Securities and Exchange Commission, 2015). Bigel (2000) suggests the abundance of these "so-called" advisers, and a clear lack of regulations, may be behind a series of transgressions by investment advisers and regulators.

It has also been suggested in research undertaken in the United Kingdom that the regulatory environment is a contributing factor that inhibits the growth of professionalism in the financial planning industry (Gaskell and Ashton, 2008). Research undertaken by Gaskell and Ashton highlights a continued dissatisfaction with financial services sales by consumers and the need for change. There is support to reduce market inefficiencies, for "financial advising" to be limited to the sale of financial products, and to substantially reassess the regulation of financial service professionals. However, like the Australian scenario, a lack of training, education and examination has negatively impacted on attempts to raise the level of professionalism in the industry (Gaskell and Ashton, 2008).

The Australian Experience in Financial Services

In Australia, regulations are in flux. Currently under Australian corporations law, any business or person that provides advice about financial products must be an Australian Financial Services (AFS) licence holder, a director or employee of an AFS licence holder, or an authorised representative of an AFS licence holder (ASIC, 2016). All individuals who provide financial product advice to retail clients must meet the minimum training standards as set out by the Australian Securities and Investments Commission's (ASIC) regulatory guide (RG) 146 (ASIC, 2012). As the industry moves to attain professionalism, the Australian Competition & Consumer Commission (ACCC) has adopted the definition supported by Professions Australia: Knowledge and Skill requirements, and adapted from ASIC RG146 including the following tiers of knowledge and skills.

Generic Knowledge

Only required for Tier 1 advisers.

ASIC does not require advisers on Tier 2 products to meet the generic knowledge requirements.

Specialist Knowledge area(s)—TIER 1 PRODUCTS:

Securities
Derivatives
Managed investments
Superannuation
Self-managed superannuation funds (SMSF)
Foreign exchange
Margin lending facilities

Specialist Knowledge area(s)—TIER 2 PRODUCTS:

Deposit products and non-cash payment products
General Insurance

Skills

Only required if the adviser is giving personal advice. An adviser giving *general* advice does not need to undertake skills (ASIC, 2012).

In Australia and most developed nations, the financial services industry strives to achieve a level of professionalism in the face of a litany of transgressions. In a rush to encourage advisers, organisations offer incentives to their brokers and agents to earn a professional designation (Phipps, 1999). In addition, while other firms seek to encourage women to enter the industry through affirmative action initiatives (CFP Board Women's Initiative, 2014). However, a persistent lack of clear regulation and inadequate adviser education are undermining these otherwise worthy initiatives and remain of concern throughout the industry.

In Australia, the FPA has taken initial steps to improve the industry standards. The FPA suggests raising the educational bar will ensure better advisers and, in turn, improve the quality of financial advice. From 1 July 2013, the FPA required new members to be qualified with an approved degree.

The Certified Financial Planner® designation is purported to be the 'gold standard' for financial planners. At present, however, there is no objective evidence to support this claim. This research project appears the first to provide an insight into the link between educational background and success in the CFP® Certification Program. In addition, this research project explores whether any correlation exists between demographic factors on entry and results in the CFP® Certification Program.

A salient piece of research in relation to key indicators of success in the CFP® Certification examination was undertaken by Grange, *et al.* (2003), where 4,829 candidates of the CFP Certification exam were surveyed with a 52 per cent response rate. The survey concentrated on the key attributes of:

- overall grade point average
- grade point average in the registered program coursework
- having an advanced degree
- taking a CFP® Certification review course
- taking the exam soon after graduation from the registered program
- studying more for the CFP® Certification examination
- studying more hours in the registered program.

This study, based on similar studies undertaken for the CPA certification in the United States, indicated a nexus between pre-existing educational qualifications and success in the certification (Whitten and Brahmasrene, 2002). The results indicated that: "educational achievement and performance, and taking the CFP® Certification Examination soon after graduation from the registered program are positively associated with success in the exam" (Grange, *et al.* 2003).

A follow-up study was conducted by the same researchers in Cutler, *et al.* (2005) who then reanalysed the survey data from the original three examination intakes, those being November 1999, March and July 2000. They also incorporated new survey data from the following three examination intakes—March, July and November 2001. In addition, statistical data analysis methods were utilised in the follow-up. Three univariate models were applied: cross-tabulation compared with chi-square test for independence, one-way ANOVA for mean scores within categories, and the Kruskal-Wallis test that allowed for analysis of raw scores without a normal distribution (Cutler, *et al.* 2003, p. 59). Two multivariate models were also applied, including a general linear model for exam scores, and a multiple logistic regression model for pass/fail outcomes (Cutler, *et al.* 2003, p. 59). This newer study identified five variables that predicted success in the examination, namely: retaking the test (decrease), participation in a registered program of study (increase), identification of financial planning as the primary industry of your occupation (increase), standardised test scores from prior studies (increase), and CPA membership (increase) (Cutler, *et al.* 2005, p. 70).

No similar study in relation to CFP® Certification examination performance has been, to date, undertaken in Australia. Our methodology in this study differs substantially from the US study with no survey instrument being used, data instead being obtained from enrolment forms and FPA records.

Background to Australian Experience and the CFP® Certification Examination

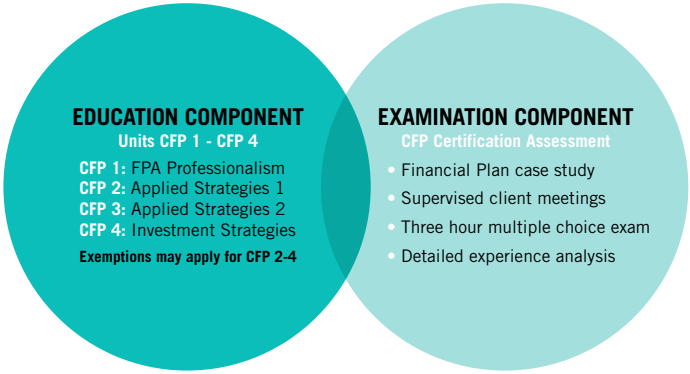
Program structure

The full CFP® Certification Program is split across five units and covers three core components of Education, Examination and Experience. Each unit is designed to advance the participants' existing knowledge and expertise, and ensure they meet the standards of excellence required to achieve the designation.

The program is delivered by distance learning over 12-week semesters and is structured in a way that provides flexibility and freedom in a self-paced delivery mode. The annual program intake includes two semesters and a summer semester. Typically, the program takes 2–3 years to complete.

The first CFP® Certification Program in Australia commenced in the spring semester of 1999. The original program consisted of four units, with a certification examination added to the CFP® Certification Program in 2003. The program as it currently exists is depicted in Figure 1.

Figure 1.



Source: Financial Planning Association

The program emphasises the competencies, knowledge and capabilities required to be demonstrated by a financial planning professional. The FPA states:

> The successful completion of the program demonstrates that you have met technical competency and exceptionally high standards across the 4Es set by the international Financial Planning Standards Board – Ethics, Education, Experience and Examination.

Data collection and methodology

Based on the literature review, three hypotheses have been identified as requiring further investigation:

- H_0—There is no identifiable variable which impacts on success in the CFP® Certification Exam.
- H_1—Prior education attainment correlates positively with success in the CFP® Certification Exam.
- H_2—Other identified variable correlates positively with success in the CFP® Certification Exam.

In order to identify the most appropriate variables for investigation, we sought out the pre-existing data available from student application forms for entry into the CFP® Certification Program. These forms were chosen because the data points would be consistent across the entire period and various cohorts, as well as being accessible to the researchers. In this study the CFP® Certification Program application forms (see Appendix 1) and result records were examined for the period 2006-2014 to determine if any correlation could be identified between the demographics chosen and performance in the CFP® Certification Program (course work) and the CFP® Certification exam. This period was chosen because it eliminated participants in the transition period from 1999-2003 which did not provide consistent information for analysis. The name and other identifying information for each candidate were removed from the data to ensure candidate confidentiality.

Data access was provided to the researchers by the FPA in Australia by allowing access to its computer files of enrolment and results. All analyses were carried out in the SPSS v22 statistical software package. This software was selected to be the tool used for statistical analysis because of its ease of use and availability to both academics and practitioners, allowing our results to be readily interpreted by a variety of audiences (Arrkelin, 2014). Brief descriptions of all the variables included in the analyses are given in Table 1.

This research is limited to the analysis of 109 randomly selected data sets as being representative of the entire population. The use of this sample size was chosen as the full population data sets were not available at the time of data collection due to the partial corruption of some student records. The remaining data had a degree of corruption which made the data unusable initially. It is intended to collect further data from the remaining population at a future time.

The CFP® Certification Program application form identified several demographic variables which included gender, age, geographic location, pre-existing educational qualifications and employment role.

Statistical methodology

The analysis began with a cross-tabulation of each examination result from the sample examinees against each demographic variable. Next, the cross-tabulations were analysed on the basis of the variables in pairs, including results in each course unit, as well as the exam scores at the Pass, Credit, Distinction and High Distinction levels. This permitted the examination of the correlations between the chosen variables and the resulting performance in the CFP® Certification examination.

Results

The first section of the analysis is related to the role of age and gender. The number of candidates in this category totalled 109; thus the impact of age and gender on the other variables was analysed only for the 109 candidates. In order to verify the relationship between any two variables the chi-square technique was applied. The relationships were then analysed at a chi-square 0.5 level of significance to determine the validity of any interrelationships.

Gender and Age

Table 1 below provides a brief description of gender and age data.

Table 1. Gender and Age

Gender			
	Frequency	**Per cent**	**Cumulative Per cent**
1.0 (Male)	76	69.7	69.7
2.0 (Female)	33	30.3	100
Total	109	100	
Age category			
	Frequency	**Per cent**	**Cumulative Per cent**
1.0 (<40)	55	50.5	50.5
2.0 (40=<x<50)	34	31.2	81.7
3.0 (>50)	20	18.3	100
Total	109	100	

The results of the analysis of the gender of the sample size indicate 76 of the candidates were male which represents 69.7 per cent. Thirty-three of the candidates were female, which represents 30.3 per cent.

Additionally, when analysing the age categories, it is interesting to note that over half the candidates are under 40, with only 18 per cent above the age of 50. Given that educational programs in financial planning only began in the 1990s it is reasonable to assume that the group under 40 has had greater opportunity to study the subject matter in a formal way than their older counterparts who tended to learn more on-the-job. Due to relatively recent changes in societal values—with increasing emphasis being placed on tertiary qualifications, adviser education and legislative compliance—it is reasonable to deduce that the under 40s group is more likely to undertake professional certifications.

Table 2 below represents a summary of the results of the tested hypotheses.

Table 2. Summary of the analysis done for age and gender

No	Hypotheses	The result of analyses
1	Gender * Success (Number of fails in CFP®)	The null hypothesis is rejected
2	Age category * Fail in CFP®	The null hypothesis is rejected
3	Gender * Number of exemption	The null hypothesis is accepted
4	Age category * Number of exemption	The null hypothesis is rejected
5	Gender * Mark	The null hypothesis is accepted
6	Age category * Mark	The null hypothesis is rejected

*Gender * Number Subject Exemptions*

H_0: There is a relationship between gender and the number of exemptions.

H_1: There is no relationship between gender and the number of exemptions.

The hypothesis is accepted based on the analysis summarized in the table below. The chi-square is less than 0.05. Men were exempted from the exams more than women.

Table 3 represents a summary of the results of the tested hypotheses.

Table 3. Results summary

	No. of Subject Exemptions					% who received maximum (3 exemptions)
Gender	**0**	**1**	**2**	**3**	**Total**	
Male	40	1	4	31	76	41%
Female	24	4	1	4	33	12%
Total	64	5	5	35	109	32%

	Chi-Square Tests			
	Value	**df**	**Asymp. Sig. (2-sided)**	**Exact Sig. (2-sided)**
Pearson Chi-Square	13.578	3	0.004	0.003

The table above indicates that 41 per cent of males receive the maximum number of available subject exemptions, while only 12 per cent of females achieve the same number of exemptions. Given that exemptions usually relate to the attainment of previous tertiary qualifications prior to commencement of the CFP® certification, this leads us to conclude that a higher percentage of males enter the program having previously studied at a postgraduate level (as maximum exemptions are only available to those who have postgraduate qualifications of FPA approved programs). This suggests that women are statistically more likely to be entering the program with lower educational qualifications than their male counterparts.

*Gender * CFP® Final Exam Mark*

H_0: There is a relationship between gender and the final exam mark.

H_1: There is no relationship between gender and the final exam mark.

The hypothesis is accepted based on the analysis summarised in the table below. The chi-square is less than 0.05. Generally, men tend to obtain higher marks compared to women.

Table 4 represents a summary of the results of the tested hypotheses.

Table 4.

Mark achieved in CFP® Final Exam							
Gender	**P**	**CR**	**D or HD**	**Total**	**%P**	**%CR**	**% D or HD**
Male	12	36	28	76	16%	47%	37%
Female	14	11	8	33	42%	33%	24%
Total	26	47	36	109	24%	43%	33%

Chi-Square Tests				
	Value	**df**	**Asymp. Sig. (2-sided)**	**Exact Sig. (2-sided)**
Pearson Chi-Square	9.000	2	0.011	0.012

The table above indicates that males, on average, achieve higher marks in the CFP® final exam than their female counterparts. This is represented by 37 per cent of males receiving a Distinction or High Distinction mark, whereas only 24 per cent of females achieve a similar standard of result. Further, the statistics indicate that 42 per cent of females achieve only a passing grade compared to 16 per cent of males. This further adds evidence to support the view that males enter this program with higher pre-existing tertiary qualifications and knowledge.

Geographic Location

Table 5 represents a summary of the locations of the candidates in the sample organised by state based on reported postcode.

Table 5. Candidate Location

Postcode	Total	%
(NSW)	41	38%
(ACT)	1	1%
(VIC)	31	28%
(QLD)	11	10%
(SA)	7	6%
(WA)	16	15%
(TAS)	1	1%
(NT)	1	1%
Total	**109**	**100%**

Analysis of the above indicates that the majority of candidates were located in New South Wales closely followed by Victoria. This result would be expected given the locations of the large financial services firms. An analysis of the data indicated no correlation between location of the candidate and performance in individual CFP® subjects, number of exemptions granted, or final exam mark.

Licensees – Employment role

Table 6 represents a summary of the licensees reported by the candidates as their employer in the sample.

Table 6. Licensee

Licensee	Total	%
AMP	3	3%
ANZ	2	2%
CBA	2	2%
IPAC	2	2%
NAB	3	3%
WESTPAC	10	9%
Others	87	80%
Total	**109**	**100%**

The table above suggests that for the sample analysed the majority—that is, 80 per cent of candidates—work for small to medium-size licensees rather than the larger financial services companies and banks. An analysis of the data indicated candidates' licensee performance in individual CFP subjects, number of exemptions granted, or final exam mark.

Pre-existing Educational Qualifications

The FPA requires new members to have an approved degree as a starting point with the expectation that raising the educational bar will provide members the 'gold standard' for entry to the CFP® Certification Program, with improved program outcomes and, in turn, more capable financial planners.

Table 7 represents a summary of the prior educational studies undertaken as reported by the candidates in the sample.

Table 7. Prior Education

	Frequency	Per cent	Cumulative Percent
Diploma	16	14.7	14.7
Advanced Diploma	18	16.5	31.2
Bachelors	38	34.9	66.1
Post Grad Diploma	25	22.9	89.0
Masters	12	11.0	100.0
Total	**109**	**100.0**	

As can be seen from the above table, of the 109 candidates 69 per cent possessed undergraduate or higher qualifications. However, from the application forms we were unable to determine what areas of discipline these qualifications were achieved in, or how long it had been since the qualification had been awarded.

Table 8 represents a summary of the prior educational studies undertaken as reported by the candidates in the sample.

Table 8. Education * Mark Cross-tabulation

Education		Mark in Final CFP Exam			Total
		<40	>40<50	>50	
Diploma	Count	8	4	4	16
	% within Mark	50.0%	25.0%	25.0%	100.0%
Adv Diploma	Count	4	8	6	18
	% within Mark	22.2%	44.4%	33.3%	100.0%
Bachelors	Count	5	18	15	38
	% within Mark	13.2%	47.4%	39.5%	100.0%
Post Grad Diploma	Count	6	13	6	25
	% within Mark	24.0%	52.0%	24.0%	100.0%
Masters	Count	3	4	5	12
	% within Mark	25.0%	33.3%	41.7%	100.0%
Total	**Count**	**26**	**47**	**36**	**109**

This research has focused on exam results based on the previous educational background of students to explore how students with an approved degree perform in the CFP® Certification Program. Although the research undertaken in the US by Grange, *et al.* (2003) would indicate that doing the CFP® exam shortly after graduation is positively associated with a better exam result in CFP® exams, we are unable to determine whether the same correlation existed in our sample.

It can be seen from Table 7 that candidates with masters degrees achieve better results as a group, with 42 per cent of the examination mark being greater than 50. Additionally, the group with the lowest marks in the exam—that is, 72 per cent—had not achieved university qualifications. It is interesting to note that the candidates with the greatest number of exemptions (i.e. postgraduate qualifications) also delivered proportionately the best performance in the CFP® exam.

However, the chi-square measure at the 0.05 level did not indicate a correlation between pre-existing qualifications and exam performance. Although limited, it appears there is no clear relationship between the different educational status of students and their success in the CFP® Certification Program.

Table 9 below represents a summary of the exemptions granted for prior educational studies as reported by the candidates in the sample.

Table 9. Education * Exemption Cross-tabulation

Education		No. of Subject Exemptions				Total
		0	1	2	3	
Diploma	Count	13	2	0	1	16
	% within Mark	81.3%	12.5%	0.0%	6.3%	100.0%
Adv Diploma	Count	15	0	2	1	18
	% within Mark	83.3%	0.0%	11.1%	5.6%	100.0%
Bachelors	Count	28	1	3	6	38
	% within Mark	73.7%	2.6%	7.9%	15.8%	100.0%
Post Grad Diploma	Count	5	0	0	20	25
	% within Mark	20.0%	0.0%	0.0%	80.0%	22.9%
Masters	Count	3	2	0	7	12
	% within Mark	25.0%	16.7%	0.0%	58.3%	100.0%
Total	**Count**	**64**	**5**	**5**	**35**	**109**

Table 9 above confirms that students receiving the largest number of exemptions were, as expected, those candidates entering the program with postgraduate qualifications in the relevant field. It follows that this must be the case since exemptions are only granted for students who have completed FPA approved programs at a postgraduate level. This data, combined with the data in Table 8, suggests that students with postgraduate qualification in a related discipline perform better in the exam. Although statistical analysis suggested that holding a masters qualification was not a significant predictor of success in the CFP® Certification Program, there is a strong inference that higher level and advanced learning—such as at masters level from an FPA approved program—does prepare candidates better, as those who had such a qualification and gained exemption for that prior study did perform better in the exam compared with those candidates with lower qualifications, such as diplomas, advanced diplomas and bachelors degrees, or non-approved postgraduate programs where no credits had been given.

Table 10 represents a summary of the 109 data sets as reported by the candidates in the sample.

Table 10. Final Examination Fail * Exemption Cross tabulation

Education	No. of Fails in Final Exam		No. of Subject Exemptions				Total
			0	1	2	3	
Diploma	1.00	Count	9	2	0	1	12
		% within Exemption	75.0%	16.7%	0%	8.3%	100.0%
	2.00	Count	2	0	0	0	2
		% within Exemption	100.0%	0.0%	0%	0.0%	100.0%
	3.00	Count	2	0	0	0	2
		% within Exemption	100.0%	0.0%	0.0%	0.0%	100.0%
	Total	Count	13	2	0	1	16
		% within Exemption	81.3%	12.5%	0%	6.3%	100.0%
Adv Diploma	1.00	Count	10	0	2	1	13
		% within Exemption	76.9%	0	15.4%	7.7%	100.0%
	2.00	Count	4	0	0	0	4
		% within Exemption	100.0%	0%	0.0%	0.0%	100.0%
	3.00	Count	1	0	0	0	1
		% within Exemption	100.0%	0	0.0%	0.0%	100.0%
	Total	Count	15	0	2	1	18
		% within Exemption	83.3%	0	11.1%	5.6%	100.0%

Table 10. continued

Education	No. of Fails in Final Exam		No. of Subject Exemptions 0	1	2	3	Total
Bachelors	1.00	Count	18	0	1	6	25
		% within Exemption	72.0%	0.0%	4.0%	24.0%	100.0%
	2.00	Count	6	1	1	0	8
		% within Exemption	75.0%	12.5%	12.5%	0.0%	100.0%
	3.00	Count	3	0	0	0	3
		% within Exemption	100.0%	0.0%	0.0%	0.0%	100.0%
	4.00	Count	1	0	1	0	2
		% within Exemption	50.0%	0.0%	50.0%	0.0%	100.0%
	Total	Count	28	1	3	6	38
		% within Exemption	73.7%	2.6%	7.9%	15.8%	100.0%
Post Grad Diploma	1.00	Count	3	0	0	17	20
		% within Exemption	15.0%	0	0	85.0%	100.0%
	2.00	Count	1	0	0	3	4
		% within Exemption	25.0%	0%	0%	75.0%	100.0%
	4.00	Count	1	0	0	0	1
		% within Exemption	100.0%	0%	0%	0.0%	100.0%
	Total	Count	5	0	0	20	25
		% within Exemption	20.0%	0%	0%	80.0%	100.0%
Masters	1.00	Count	1	1	0	5	7
		% within Exemption	14.3%	14.3%	0%	71.4%	100.0%
	2.00	Count	1	1	0	2	4
		% within Exemption	25.0%	25.0%	0%	50.0%	100.0%
	4.00	Count	1	0	0	0	1
		% within Exemption	100.0%	0.0%	0.0%	0.0%	100.0%
	Total	Count	3	2		7	12
		% within Exemption	25%	17%	0%	58%	100%

Education

More than 50 per cent of respondents did fail one exam more than once (irrespective of educational background). However, there appears to be a relationship between gender and the final exam mark with 70 per cent of males achieving at least 50 where only 60 per cent of women achieved 50. There appears to be no relationship between age and success in the different subjects, with more than 40 per cent of respondents in all three age categories having failed at least once.

Exemptions and Results

The results show students with higher degrees tend to obtain more exemptions as would be expected. Additionally, students who failed at least one subject had not been granted an exemption from any CFP units. From the results, there appears to be no relationship between gender and the mark for each of the four subjects.

Summary of Findings

The results indicate that in this pilot study there is no observable direct correlation between pre-existing educational qualifications and success in the CFP® Certification exam.

However, some interesting issues emerge from this research. Firstly, enrolments in the CFP® Certification Program comprise predominantly male candidates. The majority of these male candidates are aged between 40 and 50 years and, in the main, have higher pre-existing postgraduate qualifications than their female counterparts. This has led to these male candidates receiving a higher number of exemptions in the CFP® Certification Program, and it has been demonstrated that candidates with the largest number of exemptions achieve higher marks in the examination phase of the CFP® Certification Program. The results of the pilot study failed to provide evidence that any of the other variables tested had any direct bearing on the success of a candidate in respect of their results in the CFP® Certification examination.

The results have disproved the null hypothesis. In relation to Hypothesis 1, there is a positive correlation between prior tertiary educational qualifications at the masters level only and outcomes in the CFP® Certification exam. Hypothesis 2 relating to other identified variables, when analysed, indicated only gender as having a positive correlation with performance in the CFP® Certification exam. This factor may be further explained by the correlation between the holders of masters degrees being predominantly male.

This research has implications for tertiary education providers designing programs to better assist students to prepare for the CFP® Certification exam, with our research suggesting that those students who have completed FPA approved programs that provide credit towards the CFP® Certification Program outperform those who hold an unapproved masters degree. It informs both the Professional Standards Council and the FPA as to the factors that predict success in the CFP® Certification exam. Additionally, students and their employers may benefit from the results of this study by being better prepared for entry into the CFP® Certification Program, and better positioned to achieve successful outcomes. This, in turn, may serve to enhance professionalism in the financial services industry, with a resultant direct benefit to clients. These findings may also assist government and regulators seeking to professionalise the industry and protect its consumers through the provision of the most appropriate advice. Importantly, this may advance the outcomes of self-funded retirement. The results of this study may thus be used to inform government of the much-needed educational standards that should be mandated in order to professionalise the industry and reduce reliance on a social security funded retirement.

Future Research

Given the results in this pilot study, it is the researchers' intention to analyse the entire population to determine whether the current findings can be supported or other correlations determined. Additionally, there is perhaps an opportunity to undertake a study similar to that conducted by Grange, et al, (2005), where graduates are surveyed to obtain additional information that may indicate alternative factors associated with success in the CFP® Certification Program.

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SEQUENCING RISK FOR BABY BOOMERS: PROSPERITY OR POVERTY*

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ABSTRACT

The number of baby boomers moving into retirement is growing and yet the level of mandated superannuation available to provide sufficient retirement funding for this group is relatively low. This unique group is more sensitive to negative cyclical events and to the impact of sequencing risk through their superannuation as part of their move to retirement.

Within the context of Australian superannuation, Industry superannuation accounts represent 17 per cent of the over two trillion dollar superannuation asset base, with the majority of these fund members automatically investing in high-risk "default investment strategies" as part of their MySuper contribution arrangement. This paper investigates the implications of sequencing risk for baby boomers, as typical members in these funds, how financial market volatility directly impacts on retirement outcomes and shows that investment results are sensitive in the retirement-drawdown phase.

*This paper is developed from Loretta Iskra's Master of Finance thesis on "Australian Industry Superannuation Default Funds: Examining Sequencing Risk for Baby Boomers" (University of Wollongong, 2016).

Introduction

Baby boomers are people born between 1946 and 1966, a period reflecting high birthrates after the end of World War II. This group has been moving through different life stages, with the shift to retirement occurring from 2001 for those aged 55. Demographic trends identify that in 2014 the 55-64 age groups represents 11.8 per cent of the total Australian population (IndexMundi, 2014).

Baby boomers have felt the ongoing effects of market volatility since the financial crisis in 2008. The fear of losing superannuation savings is more threatening and heightened by the news of market downturns. This unique cohort of investors faces significant financial issues as they are likely to have financial responsibility for three generations—their parents, themselves and their children—over a longer lifetime, using smaller levels of accumulated mandatory superannuation savings (Shacklock and Brunetto, 2011, p. 743). Given the value of funds held in default strategies, superannuation as an institutional investor shoulders the responsibility of investing for many in this group.

In the literature we note the contribution of Modern Portfolio Theory (MPT), a hypothesis about investment behaviour as detailed by Markowitz in his seminal articles on Portfolio Selection (1952, 1959). Markowitz argued that the optimal behaviour of an individual investor is the preference for the less risky investment, if offered the same expected returns. Markowitz used standard deviation, a statistical measure of dispersion, and variance analysis to evaluate the weightings of assets within a portfolio to derive efficiency. Past investment results are used as an input in the portfolio selection process, with diversification implicit and uncertainty acknowledged as part of the investment landscape.

Superannuation fund trustees have been guided to create default fund structures that diversify efficiently to maximise expected returns for given levels of risk (variance). Limitations in practice reflect the use of historical results to guide estimates for expected returns, without regard to understanding conditions relating to past performance.

In 'Retirement Ruin and the Sequencing of Returns', Milevsky (2006) explains how the cyclical impact of returns plays an important role in maintaining a nest egg over a lifetime. Milevsky (2009) found that, due to the impact of negative returns combined with drawdowns, a portfolio can be exhausted sooner in the "distribution phase of the lifecycle". Teh (2014) describes the outcomes of sequencing risk as "catastrophic", "tragic" and "the difference between living comfortably in the golden years where grandchildren are spoilt versus the harsh reality of dying in poverty" (p. 8).

As part of the literary debate on portfolio construction, sequencing risk—the "worst returns in their worst order" (Basu *et al.*, 2012, p. 7) has emerged as a key risk facing baby boomers in relation to their retirement funds (Drew *et al.*, 2014). Various literature examines issues of asset allocation optimality, while also considering management of the retirement risk zone (the "fragile period" 5-10 years either side of the retirement year), the effect on pension outcomes, retirement adequacy and sustainability (for discussions, see Milevsky, 1998; Booth and Yakoubov, 2000; Byrne *et al.* 2007; Basu and Drew, 2009; Ingles and Fear, 2009; Borowski, 2013; Gebler and Matterson, 2010; Basu *et al.*, 2011; Basu, Doran and Drew, 2012; Kingston and Fisher, 2013; Drew *et al.*, 2014; Johnson, Brimble and Worthington, 2016).

The implications of a reduced portfolio base—the limits of diversification in practice and longevity-risk—heighten the fiduciary obligations for investment committee members in relation to the baby boomer superannuation default fund asset base. This study examines the effects of sequencing risk for this unique cohort as represented in Australian Industry superannuation default funds.

Data and Methodology

We examined the case of a baby boomer retiring with a superannuation portfolio hypothetically invested in a MySuper default account. This means that, based on the MySuper investment mandate, funds are required to be invested in either a single diversified investment strategy or in an account that uses a life cycle investment approach.

Given Industry superannuation default fund data1, the single diversified investment option (SDIO) is represented by a typical *Growth* strategic asset allocation (SAA) benchmark, with 80 per cent of fund assets invested in listed property and equity (growth assets) and the remaining 20 per cent invested in cash and fixed interest (defensive) investments. In contrast, life cycle products are a new development in the Australian superannuation landscape and there is limited fund data available (Mercer, 2013).

For the purposes of this study we relied on typical strategic asset allocation (SAA) benchmarks to construct the underlying mix of defensive and growth assets for each of the portfolios, see Table 1.

[1] Sourced from APRA Annual Superannuation Bulletins.

Table 1. Strategic Asset Allocation Benchmarks

	Capital Stable/ Conservative	Balanced	Growth
Cash	25	5	5
Australian fixed interest	35	15	10
International fixed interest	10	10	5
Listed property	5	10	10
Australian shares	15	35	40
International shares	10	25	30

Source: Griffith, 2009, p. 542, cited in Australian Master Financial Planning Guide.

To broaden the conceptual approach in analysing this type of portfolio, the life cycle investment option (LIO) has been established using a mix of *Capital Stable/Conservative*, *Balanced* and *Growth* benchmarks, with the proportion of each reflecting cash flow needs anticipated in retirement. To accommodate funding, we used the minimum drawdown level of 5 per cent, based on a 65-year-old using an account-based income stream. We adopted a time-based strategy of using two years cash flow for each strategic benchmark. This means that at five years from retirement, a 10 per cent move of funds to a Cash-based benchmark asset allocation protects this portion of capital from volatility, and matches eventual drawings required relative to account-based pension minimum drawdown levels for the first two years of retirement, refer Table 2.

Table 2. Cash Flow Based Asset Allocation

Age 60	Age 65	Year 1 & 2	Year 3 & 4	Balance
↑ 10% Cash		Use Cash Reserve	Use Balanced Reserve	Retain Growth
↑ 20% Balanced	Retire			
↓ 30% Growth		10%	20%	70%

The adjustments we made to the underlying asset structures were assessed on a theoretical static basis, rather than as part of a dynamic approach, and were considered in terms of a time based method interposed with cash flow needs as part of an account-based pension arrangement. This approach relied on the 'mean reversion' concept to manage risk, in that the need to draw on growth assets during a market downturn (crystallise losses) is minimised and equities have time to recover (McCulloch, 2014).

Once the cash flow adjustments were reflected in the strategic benchmarks, the underlying assets were determined, with the life cycle option represented by 73 per cent of fund assets invested in listed property and equity (growth) and the remaining 27 per cent of assets invested in cash and fixed interest (defensive) investments.

The detailed mix of growth and defensive assets for the single diversified investment option (SDIO) and the Life cycle Investment Option (LIO) is shown in Table 3.

Table 3. Asset Allocation: Single, Diversified (SDIO) & Life cycle Investment Options (LIO)

	Defensive Assets			Growth Assets		
Investment option	**Cash**	**Australian fixed interest**	**International fixed interest**	**Listed property**	**Australian shares**	**International shares**
SDIO	5%	10%	**5%**	**10%**	**40%**	**30%**
LIO	7%	13.5%	**6.5%**	**9.5%**	**36.5%**	**27%**

Although it is typical to analyse investment data over long periods, it is important to note that Australian MySuper legislation was formulated to make simple comparisons between investment strategies, based on rolling ten-year investment periods. To suitably showcase this initiative, sequencing risk is examined by finding the risk and return distributions for the major asset classes over the preceding 10 years from a fictitious retirement date and applying the results to the two investment options.

As sequencing risk emphasises the impact of market cycles and how the timing of one's retirement can be significantly impacted during an economic downturn, this study reviews two 10-year time periods: the years 2000 to 2009 and the years 2004 to 2013. This enables an overall comparison incorporating the impact of the Global Financial Crisis (GFC), for the period ending 31 December 2009, and the year preceding implementation of MySuper reforms, 30 December 2013. While having the years of analysis cross over is not ideal, the key issue for this study is to relate the issue of baby boomers and their retirement to the current investment climate, its link with the global financial crisis, and how 10-year investment periods were legislated as being the appropriate mechanism for assessment.

Market data sourced from IRESS, Citi Smith Barney and Morgan Stanley Smith Barney (as cited by Griffith, 2009:2012 and Irwin, 2013, in CCH Australian Master Financial Planning Guide, 2009:2013 editions), is based on the performance of each of the major asset classes using their relative indices:

- Cash: UBS Warburg Bank Bill Index
- Australian Fixed Interest: UBS Warburg Composite Bond Index
- International Fixed Interest: Citigroup Hedged Interest Bond Index in $A
- Listed Property: S&P/ASX300 Property Trust Accumulation Index
- Australian Equities: ASX All Ordinaries Accumulation Index
- International Equities: MSCI World Index (ex Australia in $A net dividends)

Market returns are analysed with mean and standard deviation calculated for each asset class over the two 10-year periods—to link back to the MySuper performance comparison mechanism enshrined in legislation.

In addition, we examined the market results for a 100 per cent defensive investment option (DIO) and a 100 per cent growth investment option (GIO), for each of the two periods under examination. This allowed us to test the impact of extreme positions.

Results

On assessment of the two 10-year investment periods for the four different investment options – the single, diversified (SDIO), life cycle (LIO), defensive (DIO) and growth (GIO), we report the impact of sequencing risks dominating the outcome of the earlier period, reflecting the significance of the 2008 economic crisis (see Table 4).

Table 4: Impact of Market Returns on Investment Options

	SDIO		LIO		100% DIO		100% GIO	
	Mean, μ Percent	Standard Deviation, σ	Mean, μ Percent	Standard Deviation, σ	Mean, μ Percent	Standard Deviation, σ	Mean, μ Percent	Standard Deviation, σ
2000:2009	5.86	14.29	6.13	13.05	6.7	2.83	5.5	20.81
2004:2013	8.73	15.21	8.67	13.87	6.3	3.0	8.4	22.87

In the first 10-year period, years 2000 to 2009, the 100 per cent defensive (DIO) portfolio has achieved the higher average return of 6.7 per cent, with least risk, s=3.0. While for the second 10-year period, the years 2004 to 2013, although the single, diversified investment option (SDIO) achieved the higher average return of 8.73 per cent, it only provided a marginal improvement on the average return for the life cycle option (LIO) of 8.67 per cent, and 2.4 per cent more than the defensive option (DIO), and yet was five times more risky.

Findings and Conclusion

Sequencing risk for baby boomers presents as a significant threat as part of the retirement phase. This study found that the high exposures to growth assets in typical MySuper default funds would lead to significant losses in growth assets. For the period ending 2009, a defensive investment strategy was able to provide an average return of almost 7 per cent with standard deviation at 2.83. Growth investments averaged 5.5 per cent with standard deviation of 20.81 for the same period at seven times the risk.

Modern Portfolio Theory (MPT) accommodates cyclical market movements as part of mean-variance reversion, with investment portfolios adopting a long-term perspective for asset allocation, and with growth assets providing higher investment returns. Construction and maintenance of diversified portfolios for superannuation on the basis of MPT during the accumulation phase is appropriate. However, in the process of transitioning to retirement, sequencing risk triggers a potential change to investment constructs. Superannuation capital becomes a means for cash flow and capital expenditure funding in retirement. The optimal portfolio in this lifecycle stage is less homogenous. Conversion of capital to income streams permanently alters asset allocation arrangements.

Baby boomer default and life cycle benchmarks were used to determine market changes over two 10-year periods for industry fund retirement wealth. Results show that sequencing risk is more prominent in periods of market downturn when relying on the industry default asset allocation. This means that when growth assets are affected by negative results, greater losses are evident. By contrast, the reverse is true – when markets are performing well, better results are apparent.

The results from life cycle benchmarks show improved results during a market downturn and lower returns when markets are favourable. The reduced exposure to growth assets protects the portfolio when losses occur and inhibits performance when they are positive. However, risks are lower with the life cycle portfolio. While the 10-year time frame restricts the overall assessment, it helps to position the issue of sequencing risk relative to the 10-year retirement risk zone applicable to baby boomers.

Going forward, baby boomers will find it very difficult to assess the merits of the two legislated investment options as typical default superannuation asset allocations are devoid of individual investor preferences and needs. While this preliminary analysis provides an example of a different approach to life cycle products (matched to account-based pension drawdown levels), there is still a significant disconnect with baby boomer retirement needs. It is very difficult to assess appropriateness of an investment option without understanding the true financial position and needs of the baby boomer investor.

This study has been able to demonstrate how the dominant elements of Modern Portfolio Theory, that is, the use of a diversified, long-term investment, structured to cater for the suitable strategic risk and return benchmark, has optimality constraints for superannuation relative to the retirement process for baby boomers.

Recommendations

This research examined sequencing risk for baby boomers in industry default funds and provided insight into the investment considerations that apply. While investment performance and market cycles play a major role in portfolio outcomes, the consequence of the "worst returns in their worst order" (Basu *et al.*, 2012, p. 7) adds a more significant dimension to an already multifaceted ageing problem. Isolating investment performance as an efficiency measure can detract from the overall financial needs of baby boomer investors and lead to an unreliable yardstick for establishing income arrangements in retirement.

Development of an assessment framework—to filter and provide a mechanism for decision-making—could assist in the complex retirement strategy process. Linking targeted initiatives, and reflecting issues associated with the retirement risk zone, could better accommodate baby boomer needs. Establishing a hierarchical sense of funding requirements, whether repaying a mortgage, keeping money for aged care, having a comfortable retirement or safeguarding cash flow for life, can be used to improve the transition to retirement choice options.

Future research

Throughout this study it was noted that the context of retirement covers a broad range of areas, with limited research available on their interconnectedness. In many respects, improved life expectancies are creating an unknown future. Parents moving towards retirement are juggling intergenerational demands of their parents, their children and grandchildren. From a pragmatic point of view, understanding how decisions are being made, how priorities are set and how funding is arranged is important. Research focused on gathering detailed information on these issues from the current retiree cohort could identify triggers and other mechanisms that could assist in delivering improved retirement income solutions to baby boomers.

Longer term solutions need to focus on practical outcomes. To offset government age pension funding with annuities as a means to addressing sustainability issues is one-dimensional and insufficient as a policy platform. Greater stability and fairness for all is achievable.

It is difficult to know if Australia is well placed to meet the issues of an ageing population, through its 'three-pillar' retirement income support mechanism. Implementing reform for success will require an understanding of the implications of sequencing risk for baby boomers and how this will translate on an intergenerational scale. Supporting elements of transparency and efficiency will be important to ensure that superannuation is not used as a commodity nor exploited for either individual or corporate gain. Optimistically, demographic change will continue to be a catalyst for ongoing improvement.

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A Society of Trust and Estate Practitioners (STEP) event

CURRENT PRACTICES IN AUSTRALIAN FARM SUCCESSION PLANNING: SURVEYING THE ISSUES^

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ABSTRACT

The majority of Australian farms are 'family farms', that is, those that are owned and operated by members of a nuclear or extended family. An important key to the continuation of family farming is the smooth succession by subsequent generations. Increasingly, financial planners are becoming involved in succession issues including those involving farming families.

We examine the current status of succession planning in Australian farming through a survey of farming family members. While the majority of survey respondents considered that maintaining family harmony was their first priority, a significant proportion have no succession plan. Importantly for financial advisors, employing professionals with appropriate skills in estate planning is rarely done.

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Introduction

The majority of farms in Australia are 'family farms' (Kilpatrick, 2000; Wheeler, *et al.* 2012) accounting for about 60 per cent of land use in Australia (Australian Government, 2011), and an important key to the continuation of family farming is succession by subsequent generations (Gray, 2000). However, as reported by Sappey, *et al.* (2012), there has been an alarming fall in the number of family workers in the rural sector with some suggesting that as few as 100,000 persons will remain employed in farming by 2021 (Barr, 2000). In addition, although still in the majority, the number of family farms has also been declining in absolute terms (ABS, 2006)—a phenomenon that has also been observed in other countries (Darnhofer, *et al.* 2016; Fischer and Burton, 2014). Further, family farms that continue have been forced to adjust to the exposure to free market forces—a process that takes energy and drive (Johnsen, 2004). Exacerbating this situation is the fact that the current owners of Australia's family farms are reported to be rapidly ageing with well over a quarter of Australian farms being run by owners who are over 65 years of age (Foskey, 2005), making succession an issue of dire importance.

The ageing of the farm population, and the consequent importance of succession, appear to be issues that are common throughout the world (Conway, *et al.* 2016). In some countries it has resulted in specific policies designed to encourage farmers to retire in their mid-fifties to mid-sixties, but the assessment of such policies has concluded that they have achieved only moderate success with outcomes little different from what might have been expected from traditional succession patterns in the absence of the policies (Bika, 2007). One response to the challenges facing farming has been the growth of multifamily farms (Moreno-Parez, Arnalte-Alegre and Ortiz-Miranda, 2011). However, this development has been largely intragenerational, and is therefore likely to complicate issues of succession, although there are clearly a number of advantages. A not too dissimilar response has been discussed by Pritchard, Burch and Lawrence (2007), in which the development of an integrated business originating in farming is described. In this model, one that is neither that of the traditional family farm, nor a corporate enterprise, labour outside of that provided by the family has been harnessed to drive the enterprise's success.

In this paper we seek to review the current status of succession planning in Australian farming through a survey of farming family members. We focus on the first three stages of succession—the decision to retire, the identification of a successor, and the transfer of control to the successor in order to identify the factors that are currently impacting, positively or negatively, on these decisions, and whether or not there has been any change from what has previously been found. An audit of this nature is necessary, particularly in Australia, as there is now a well-established body of literature categorising the issues and calling for change. If progressive change has not been forthcoming, then the reasons for that need to be identified and appropriate policies adopted to foster succession in the agriculture sector.

To achieve this objective we proceed as follows: Section 2 reviews the literature and establishes the key factors to be canvassed in our survey. Section 3 details the survey method employed in this research. The results of the survey are presented in Section 4 and discussed in Section 5, and conclusions are drawn and recommendations provided in Section 6.

Literature Survey

Vogel (2006) is one of a number of writers who has identified several distinct stages of farm succession. The first stage is usually regarded as the development of the farmer's retirement plan. In the second stage, the successor needs to be identified. Stage three is often regarded as the gradual transfer of control from the farmer to their successor. This often precedes the fourth stage in which the legal transfer of the property takes place. Stages five and six are regarded as critical as, in stage five, the successor begins to make changes to the structure and nature of the business leading to the sixth stage, in which the outcomes emanating from stage five have their impact on the family as a whole. In this paper, we focus on the first three stages that lead up to the transfer of ownership to the successor.

Unfortunately and typically, the process of succession falls at the first hurdle. There appear to be three main reasons for farmers failing to develop a retirement plan. In the first instance, it is difficult to get farmers to begin to think about retirement. Baker, Duffy and Lamberti (2001) found that nearly three quarters of farmers in their mid-fifties had no retirement plan in place and that over 20 per cent of their respondents, impractically, did not plan to retire. In Australia, Barclay, Foskey and Reeve (2007) found a similar attitude. Australian farmers, like their US counterparts, did not begin to contemplate the issue of retirement until they had entered their 50s. Overall, Australian farmers are not regarded as having a positive view regarding retirement because of their strong work ethic. According to Foskey (2002), retired farmers appear to lose a sense of purpose in life and this may result in a negative role model for farmers approaching retirement. More recently Conway, *et al.* (2016) have confirmed that Irish farmers fear a loss of "identity, status and control" on retirement. The literature indicates that Australian farmers planned to move into semiretirement at around age 65, and considered that they would not be fully retired until well into their 70s (Barclay, Foskey and Reeve, 2007). Accordingly, this paper investigates if farmers have become more (or less) receptive to the inevitable prospect of their retirement.

A second factor complicating the retirement issue is the increasingly pessimistic expectations regarding farm viability—especially in the face of continuing drought (Barclay, Foskey and Reeve, 2007; Kaine, Crosby and Stayner, 1997; Foskey, 2002; Hicks, Basu and Sappey, 2008). Farmers who doubt the continuing viability of their farm feel obliged to work on long after they normally would have retired. Unfortunately, in these circumstances, farm development is forsaken as ageing farmers battle with farm maintenance and debt (Foskey, 2002; Barkley, *et al.* 2007). This is occurring at the same time that the need for increased capital investment on farms is rising because of the changing structure of the farming sector internationally (Calus, Van Huylenbroek and Van Lierde, 2008). It has been argued (Calus, Van Huylenbroek and Van Lierde, 2008; Calus and Van Huylenbroek, 2008) that there is a high correlation between the value of fixed assets on the farm and farm succession. Tanewski, Romano and Smyrnios (2000) found a similar relationship in Australia. Hennessy (2002) and Glauban, *et al.* (2009) both found that the likelihood of succession increased with the size of the farm and with farm income.

The third problem in developing a retirement plan is that farmers are often reluctant to seek advice in this area (Baker, Duffy and Lamberti, 2001; Barclay, Foskey and Reeve, 2007) notwithstanding the complexity of putting a retirement plan in place (Barclay, Foskey and Reeve, 2007; Gamble, *et al.* 1995; Symes, 1990). Accordingly we explore whether, and from whom, advice in this area is sought.

Identifying a successor is also frequently problematic for farmers. Barclay, Foskey and Reeve (2007) reported that close to 50 per cent of farmers in Australia had not identified a successor. In Australia one study found that the proportion of farmers farming land that had been farmed by their parents has been falling and, further, 60 per cent of farmers could not be certain that the farm would be retained in the family (Foskey, 2005). This is problematic for succession when, as Mendham and Curtis (2010) point out, there is likely to be a 50 per cent change in property ownership in the next decade.

The literature has canvassed a number of reasons that contribute to the difficulty of identifying a successor. The previously noted pessimism regarding farm viability may discourage farmers from nominating successors and potential successors from stepping forward. On the other hand, failure to identify a successor can result in actions that result in the farm becoming less viable as families begin to disinvest and/or adopt a static management strategy. Identifying a successor, on the other hand, tends to be associated with forward thinking farm development strategies (Inwood and Sharp, 2012; Wheeler, *et al.* 2012).

Making this more difficult is action by parents to discourage children from taking up farming (Ball and Wiley, 2005; Barclay, Foskey and Reeve, 2007; Crockett, 2004). Typically, such parents encourage their children to pursue an education in a non-farm labour discipline. Some studies (e.g. Glauban, *et al.* 2009) have found that identifying a successor was often assisted if the potential successor had been educated in an area *other* than farming. This was because a non-farming degree opened up the prospect of higher off-farm earnings that might enable the potential successor to supplement their income and to meet the capital requirements discussed above. Certainly there appears to be an increasing trend to part-time farming (Foskey, 2005; Barr, 2001 and Hennessy, 2002). However, it would be misleading to push this argument too far as Farmar-Bowers (2010) has reported that off-farm work is frequently tied to factors other than the continued viability of the farm. Furthermore, notwithstanding the importance of the business viability of the farm when seeking to identify a successor, Fischer and Burton (2014) have convincingly argued that this is only part of the story. In addition, it needs to be kept in mind that a long-term socialising of the successor is also required. Successful succession will require a balance of economic and social values (Grubbstrom, Stenbacka and Joose, 2014). That being said, it is also evident that successors who enter full-time farming tend to take on properties that are large and recognised as good businesses. They also have a lower propensity to undertake non-farming educational activities (Hennessy and Rehman, 2007). Accordingly, we want to gain further insight into the identification of successors. Does succession, where it occurs, continue to be primarily based on the principle of one male successor or does family succession, including the succession of women, now have a greater role to play?

The socialising of the successor requires that there is good, long-term communication between the farmer and the potential successor. However, the literature reports that there is frequently a problem in communicating across generations (Kaine, Crosby and Stayner, 1997; Foskey, 2005; Gamble, *et al.* 1995; Gamble and Blunden, 2004; Barclay, Foskey and Reeve, 2007). Failure to communicate can lead to family conflict and the eventual breakdown of the farm (Wheeler, *et al.* 2012). Consequently, it has been argued that an open communication strategy will cause the successor less stress (Grubbstrom, 2014). Accordingly, we investigate the extent of communication between farmer and family with respect to succession issues.

Once identified, successors in Australia will generally work with the farmer on the property that they will eventually take over (Barclay, Foskey and Reeve, 2007). This compares to the US where nearly two thirds of eventual successors work away from the farm to which they will succeed (Baker, Duffy and Lamberti, 2001). However, plans for succession may also come adrift as the stage of transferring decision-making responsibility is entered into. Transferring control to the successor can be problematic (Baker, Duffy and Lamberti, 2001). There are a number of reasons for this. First, if the potential successor works off-farm, it will be difficult to have the successor engaged in decision-making. Second, the farmer may be reluctant to permit the successor to make decisions for a variety of reasons including the fact that his retirement income will be drawn from farm income. In Australia, transfer of control tends to take place at a rate slower than experienced in other countries (Barclay, Foskey and Reeve, 2007). Succession, when it occurs, also tends to move slowly through a range of different stages (Errington, 2002; Barclay, Foskey and Reeve, 2007). However, these stages are not definitive and often depend on the complexity of circumstances confronting each farmer (Taylor, Norris and Howard, 1998). A tendency has been identified amongst some older farmers to hold back the younger generation by insisting that the younger generation utilise the older farmer as 'expert' (Grubbstrom, Stenbacka and Joose, 2014). Such actions, in addition to delaying succession, increase the frustration of the successor. From the above discussion we consider the reluctance of farmers to retire and hand over the reins to the next generation.

A decade and a half into the 21st century, we consider it important to ascertain if the issues raised above remain a concern in agriculture. The farming community has aged further in that time— increasing the need for successful succession strategies. Therefore, in general terms, we want to know: 1. Are farmers becoming more (or less) receptive to the inevitable prospect of their retirement? 2. Are farmers seeking succession planning guidance, and from whom are they seeking this if they are? 3. Finally, we want to gain further insight into the identification of successors. Does succession, where it occurs, continue to be primarily based on the principle of one male successor or does family succession, including the succession of women, now have a greater role to play? 4. We investigate the extent of communication between farmer and family with respect to succession issues. 5. When transition does occur, is this a smooth process and, if not, what issues/problems occur? In order to answer these questions, we have used a survey of the Australian farming community as discussed in the next section.

Method

To understand the extent of, and issues involved with, succession in Australian farming families a survey methodology was employed. The development of a methodological approach for this paper was governed by the exploratory nature of the research that seeks to develop insights into the experiences and perspectives of agribusiness operators on business succession. After an examination of extant literature a convenience sample of 50 farmers were interviewed to inform the development of survey questions on farm succession. Interviews were recorded, transcribed, and responses matched thematically and analysed. The questions focused on the extent to which succession planning had occurred as well as the factors and considerations involved in succession planning. The survey consisted of a number of questions related to the aspects of succession discussed above and an invitation to participate was emailed out to prospective respondents along with a link that allowed it to be completed and submitted online[2]. The interviews and survey data collection were undertaken between January and July 2016.

The online survey was distributed to the membership of the NSW Cattlemen's Breeders' Association that has approximately 3,000 subscribers. In addition, postings were made on the Facebook pages of the NSW Young Farmers (approximately 3,000 followers); the NSW Future Farmers Network (5,000 followers); Sydney University Agricultural Society (644 members); Marcus Oldham College, Sydney University (644 members) and Robb College, University of New England (1,500 followers). The Facebook postings constituted an open invitation to followers to participate if they were members of farming families. In total 241 respondents were received. (A copy of the survey questions is available from the authors on request.)

Results

There were 241 respondents to the survey of which 141 or 58.5 per cent were male and over 60 per cent were aged 30 years or younger. Clearly, the family response became largely the responsibility of the younger members of the family, which is not surprising given the means by which the questionnaire was administered. It does, however, mean that the responses provided are largely filtered through the lens of youth. Only six respondents (2.5%) reported that they had no siblings while over 40 per cent reported three or more siblings. Thus issues of distribution, and the fairness of that distribution, were likely to be important. Of the 241 respondents, 67 (28%) indicated that they worked full-time in the family business and only 12 (5%) indicated that they worked in the family business part-time—although three of these indicated that they also worked part-time in another business. Of the remaining respondents, the majority (76 or 32%) were employed full-time in another business and 51 (25%) were studying full-time. One was not employed, one was retired, 21 indicated 'other' and four gave no response.

[2] Ethics clearances were acquired from CSU.

In general, the respondents can be regarded as having been quite familiar with succession in farming. Of the 241 respondents, 72 (30%) indicated that the farm had been in the family for four generations or more, while 56 respondents (23%) were from families that had been engaged for three generations, 41 (17%) had been engaged for two generations, and only 28 (11.6%) were the first generation in the family engaged in farming.

The Decision to retire

Thinking about retirement

Nearly half of respondents (118 or 49%) considered retirement a positive stage of life and were looking forward to it. Another 64 (26.6%) stated that they felt indifferent to the decision to retire. Such statements, however, appear to mask serious issues. When asked at what age they had, or expected to, retire, the average response was in the late 60s (67.3 years). However, a significant proportion indicated that they didn't desire retirement. For example one farmer stated:

> Rather than retire I'll probably just ease up and only do the things that I enjoy most on the farm (letting others do the rest) and spend more time on hobbies or travel.

Another response indicated that: "If I stay healthy physically and mentally I guess I won't ever really retire. There's always something to do!"

In terms of funding retirement, 64 respondents (26.6%) expected that their farm assets would, at least in part, fund their retirement. As one respondent stated: "... our farm and stock and plant are our superannuation". Unfortunately, with the agricultural sector experiencing a difficult time, plans based on farm assets funding retirement may be thwarted. It was evident from the survey that a number of farmers considered retirement problematic in the context of current economic circumstances. One farmer complained of:

> trying to hand on an enterprise that is recovering from years of drought, low prices, run-down infrastructure and increasing debt in a climate of mistrust and misunderstanding...

Farmers concerned about retirement are also struggling to maintain the business. One respondent stated:

> I speak for my father here. We have spoken about this. He has not thought about the future and worries about relinquishing the farming business but at the same time feels he is struggling to keep pace with the scale and workload required.

A closely related issue is the need, by one or more members of the family, to work off-farm in order to enable the business to survive. The survey confirmed the importance of off-farm work with 116 respondents (47.7%) indicating that the farmer or spouse or both would work off-farm to support the business. Others indicated that working off-farm was often a lifestyle choice rather than a necessity.

Retirement advice

Nearly half of our respondents (112 or 46.5 %) considered that the family should employ succession consultants to provide advice during the succession process. However, of those who considered it necessary, some stated that access to such services at a reasonable expense was difficult. Furthermore, there were some strong feelings with respect to who might be able to provide suitable advice. Some felt that accountants were not necessarily the most appropriate professionals to use because of the diversity that existed in the farming industry—a diversity, presumably, that farmers (or their children) did not consider accountants to be across. Of those who were uncertain about the use of a mediator, some indicated that, having used them, the outcomes attained did not meet their expectations. However, for the majority who had used professionals, the experience was frequently regarded as beneficial—especially in terms of initiating the process and informing and communicating to new family members (for example spouses). In addition, techniques for communicating issues were learned and adopted with the result that the need for the continued use of professionals gradually declined—although the benefits of having used them remained. For example, one respondent stated that: "We learned the skills to operate with only very occasional help now."

It was generally considered necessary to engage professional consultants from an early stage and to be sure that the right person has been retained, as an inappropriate choice can often make matters worse. As one respondent explained: "My family brought in a well-known consultant who wanted to get decades of issues sorted out in a day. It made the situation worse rather than better."

It appears, from the wide-ranging comments made, that professionals with the appropriate skills are rare. There was certainly little support for lawyers in the process. Of those who considered professional advice not necessary, one stated: "No just get rid of lawyers". Where lawyers were used, some regarded their role as merely to formalise and document agreements—not to offer advice. Bankers were also treated rather harshly. For example: "Do NOT employ a bank succession planner, they just want the child taking over the business to increase the mortage to sure [shore] up the business."

These responses, and the discussions around them, raise the question of what is the appropriate skill set for planners. Respondents did not want to employ planners who came to the task with a preconceived idea of what the outcome would be. Those seeking advice wanted the planners to listen to their needs and to carefully take into account the particular circumstances of the business and of the family. They strongly felt that there was a need for planners to be adaptive and creative in proposing solutions to family issues. Comments made remind us of the fact that frequently the farm is not just a business, but also a home: "it was a house not a property and it was stressful but the family still love each other!"

The literature indicates that succession planning should be part of the business plan of the farming operation. Of the 241 respondents, 183 (76%) agreed with this. However, although this was considered desirable, it was not consistently carried through. Some of the respondents indicated that more written information should be made available to them on the issue of succession and that this would assist them in developing a succession plan and incorporating it with their business plan. However, the reality remains, as is discussed below, that the finalisation of a succession plan is frequently an unfulfilled goal.

Identification of successor

The first step in planning for succession is the identification of a successor and 138 respondents (57.3%) indicated that this had been done.

Incentive and disincentives to identify a successor

Interestingly only 24 (10%) of the respondents identified maintaining a viable business as the first priority when choosing a successor—although 49 (20.3%) considered that the farm was a business like any other asset that could be bought or sold. The majority—118 respondents (49%)—considered that maintaining family harmony was their first priority. Given the findings of other researchers, it was surprising to find that only two of the respondents did not want the children involved in farming and to take over the property or business when they retired. On the other hand, 213 (88.4%) either wanted their children to take over or have the option, but not the obligation, to take over. Most (184 or 76.4%) were in the second group. Keeping the business in the family was the most important thing to 68 (28.2%) of our respondents. Another 18 (7.5%) were keen to see their family continue in farming even if it was not on the current farm. Of our respondents, 89 (37%) would prefer the farm not to be sold, but said that they understood if this did have to happen: "Family members must enjoy the business to be included and pursue it as their life's work. If they don't there is no point doing it."

The high proportion of respondents with siblings presaged a problem in the making—notwithstanding the desire for family harmony. Those wanting to tackle the issue of succession may frequently be prevented from doing so because they cannot decide how to deal with all of their children. Only a small number of our respondents (6) saw this as an issue. However, in some of these cases, the problem was intractable and unresolved in the farmer's lifetime: "Siblings became jealous when I found/married wife/said they should get money/share of farm. Has resulted in family breakup, both parents now deceased and about to engage lawyers."

The tension between maintaining family harmony and ensuring an ongoing business appeared to be ever-present. Asked if there should only be one successor to own and operate the family business, 138 (57.3%) of our respondents answered 'no' while 53 (22%) considered it to be necessary. This tension was also reflected in answers to questions concerning the future distribution of assets. While 74 (31%) stated that all assets and all ownership would be split equally between all children, 108 (44.8%) admitted that although they would try to be fair, they knew that they would be unable to distribute the assets equally.

Problems of primogeniture

This discussion brings us to the problem of primogeniture, which has featured prominently in the literature. Male farmers with female heirs tend to justify the failure to consider the interests of the females by arguing that the farm would not survive if it were not left to the male heir. One male successor stated that his inheritance of the family business left: "... a feeling of resentment and inequity between my self and sisters, although they understood that the business would have suffered probably irreparably if a strict division of assets occurred". The willingness to accept such statements—even among females—remains quite high in the farming community. The majority of respondents to our survey indicated that women were not treated differently to men with respect to succession and even amongst women, 57 per cent of responding females agreed that women are not treated differently, only 29 per cent voicing an objection. However, there is evidence that the situation is changing. One female respondent indicated that the biggest barrier to a successful succession was primogeniture: "out-dated attitudes and unrealistic expectations of what passing on down male line really means".

Although numerically in the minority, the women voicing an objection to prevailing attitudes to primogeniture put their case strongly. They clearly considered that women should be considered as equals and that the 'business' case could not be used to justify the favoured treatment of males:

> Definitely. My parents want to give my brother the majority of the family business, my sister & I were discouraged, even though we both want to be involved.
>
> My father has stated that we are "no longer -surname-". Only my brother has been offered the opportunity to return.
>
> Girls in my generation (if there were boys) were not usually expected to be a part of the family business.
>
> My brother is gay and interested in theatre. My sister and I are far more interested in agriculture than he is.

Communication and socialising successors

The literature indicates that lack of communication is a major problem in succession planning. Of 234 respondents to the question 'who should be included in conversations around succession?' 174 respondents (74.4%) indicated that all family members should be involved whether they want to return to the business or not. However, 26 respondents (10.8%) indicated that succession had not been discussed at all within the family. Of all respondents, 183 (76%) indicated that there had been some discussion. However, of these, only 64 said that the family had a plan that everyone was familiar with, and 106 stated that although succession had been discussed, no plan had yet been put in place. The other 13 of the respondents indicated that although discussions had taken place, they had not been involved.

One reason for the lack of acceptable outcomes of succession discussions (i.e. failure to finalise a succession plan) was that discussion did not go beyond informal comments made in passing with, in some cases, the owner of the farm being held accountable for the lack of more formal and detailed outcome: "Dad loosely talks about it, alludes to it all the time, but doesn't seem ready yet to communicate the plan fully". In other cases, discussion had taken place but not all of the family had been engaged or were even aware that discussion had taken place: "Yes, some discussion, but everyone isnt aware of the whole plan. Feel there are some plans that will shock us when the time comes". Unfortunately, with or without discussion, satisfactory outcomes were not attained and this often resulted in legal issues:

> Yes we had a good plan every one was happy with until lawyers stuck nose in; unfortunately legal counsel has been sourced; we are currently preparing to have a mediated succession meeting.

That the succession process is not an easy one is indicated by the fact that only seven respondents to the questionnaire indicated that the succession process had gone smoothly and that an easy transition had been achieved. On the other hand, 157 respondents described the process as traumatic and nearly a quarter of these indicated that there remained unresolved family issues. "Traumatic and has cut ties with family members". In total, only 64 of the 234 respondents to the survey question (27%) indicated that a successful outcome had been achieved—but even this was often at a cost: "But to endure 20 years of hell was not pleasant with a young family". One of the major issues with a failed attempt at establishing a succession plan is that farmers may leave the industry: "I said I was out. (The) farm is for sale".

The two leading threats to a smooth succession process were regarded as lack of communication (57 respondents) and conflicting expectations (60 respondents). These clearly needed to be undertaken earlier rather than later as it was felt that this would enhance the chance of achieving more satisfactory outcomes: "I wish I was allowed to discuss with my father and mother succession planning etc while I was in my 30s".

Transition

Transition from one generation to the next has long been regarded as an issue—even when successors have been identified. Thirty-two (13.3%) of our respondents indicated that a smooth succession process had been hindered because, although the successors were ready to take over the family business, the parents were not ready to leave. Others stated that the issue was the lack of experience of the coming generation or that they were too young. However, we also found farmers looking to put a succession process in place but were prevented from doing so because the children were not yet ready to come home.

Some farmers indicated that they would never fully retire, but considered that their children were already part of the business. Others wanted to work for the next generation:

> I want to work for the next generation as soon as possible. The knowledge and inishitive of the the next gen should be be better than the previous, so let them have the responsibility and decision making.

Only 62, just over a quarter, indicated that they would eventually move off the farm and leave management to whoever succeeds them. Of all respondents, 72 were happy to step down from management, but preferred to stay on the property. On the other hand, 50 wanted to continue to be involved in the management of the business after they retired.

Discussion

With respect to the first research question—are farmers becoming more (or less) receptive to the inevitable prospect of their retirement—results indicate that while most see retirement in positive terms, a significant proportion still view it negatively.

Results to our second research question—are farmers seeking succession planning guidance, and from whom are they seeking this if they are—indicate that around half of those surveyed saw the need to engage specialist professional advisors to assist with the succession discussion and succession issues. But respondents expressed concerns about other professionals, such as accountants, becoming involved in the succession discussion.

Our third question investigated the identity of successors. The majority of respondents considered that maintaining family harmony was their first priority, while an overwhelming majority wanted their children to take over or have the option, but not the obligation, to take over.

Our fourth research question investigated the extent of communication between farmer and family with respect to succession issues. The overwhelming majority of respondents felt that all family members should be included in the succession discussion and the overwhelming majority had been involved in some discussion already. Still, there was a significant proportion that had not discussed succession and, more importantly, only a small proportion that had a formal and documented plan.

Our final research question considered the issues/problems associated with the succession process. Even when successors have been identified it was found in many cases the process was not smooth due to a variety of reasons, such as successors not being ready to take over the family business, or the parents were not ready to leave.

Conclusion

The majority of Australian farms are family businesses and the continuation of these enterprises into the future is highly dependent on putting in place successful succession plans to ensure the transition of the business from one generation to the next. Compounding the problem is the current age and ageing of the Australian farming population. Strategies to assist farmers to initiate and cope with succession planning are clearly necessary. The issue is not new, and has been known for some time. However, our research suggests that little is changing for the better in the industry, putting food security, sustainable agriculture and a valued way of life at risk.

Getting farmers to think about retirement is problematic. The thought of not working is foreign to them. Greater effort needs to be made to educate farmers that a worthwhile and productive life exists beyond retirement. Further, to take full advantage of their retirement years they need to begin planning early. Doing so is not just advantageous to the farmer, but to the whole farming community as it will create a positive example and facilitate the efficient husbanding of farming resources.

In making complex retirement decisions, farmers need the assistance of skilled and dedicated advisors. Farming is not just like any other business. Accordingly, those offering advice to agribusinesses could consider investing further in specialist agri-planners who understand the dynamics of farm management and family issues. Future research could consider the extent to which issues of succession and retirement are canvassed along with traditional agricultural planning issues. Given that financial advisors have an increasing role in assisting with estate planning issues they need to have empathy for the farmer and their family's needs as well as an understanding of the financial realities of the farming community. They need to be listeners and communicators as well as outstanding business analysts. Such a combination is extremely rare and calls for government intervention to ensure the training of personnel skilled to meet this urgent need of the farming community.

At the heart of succession planning is the identification of a successor (or successors). The farming community needs to be encouraged to engage in this process at an early stage. The drift of farming children away from the farming life needs to be acknowledged and addressed by the timely intervention of government policy to encourage the growth and sustainability of regional economies that can provide social and economic support into the future. On the farm, all of the children, male and female, need to be encouraged to identify the productive role that they can play. Programs need to be put in place that encourage and develop communication within farming families and communities as our research confirms that lack of effective communication is a major cause of traumatic succession experiences.

Continued involvement of the farmer in the operation of the business can be extremely beneficial. It gives the retiring farmer a sense of purpose as he gradually 'lets go of the reins' and it provides the successor with access to a knowledge that only experience can bring. At the same time, there needs to be an increasing acceptance that youth, and the drive and enthusiasm that it brings, is found in the successor and that, therefore, the successor needs to gradually take on more and more of the decision-making. For this to happen, farmers need to be confident that their financial security is not at risk. Assistance with imaginative and appropriate financial planning for retirement is required.

We conclude, therefore, that succession planning in farming remains a problem of immense importance to the Australian community. The problems identified vary little from those observed overseas and from what has previously been observed in the Australian case. However, they are problems that remain largely unaddressed by public policy in Australia. Notwithstanding that farmers may be a relatively small proportion of the Australian population, they are an integral component of our society and Australian society as a whole will benefit from greater public attention being given to their needs.

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FINANCIAL AND ESTATE PLANNING IN THE AGE OF DIGITAL ASSETS: A CHALLENGE FOR ADVISORS AND ADMINISTRATORS^

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ABSTRACT

The overwhelming majority of citizens in Australia use email and the internet every day, yet few people stop to think of the value and importance of the online or 'digital assets' they possess. Complications arise for trustees and beneficiaries with respect to accessing these assets in the event of death or disability. We examine the nature of these assets and discuss the current legal issues they raise with respect to estate planning and administration. We argue that there is an urgent need for appropriate legislation to be developed to assist fiduciaries to discharge their responsibilities and support beneficiaries.

^This paper results in part from the work of the Digital Assets Working Group (DAWG) of STEP. The DAWG is a worldwide group of Estate and Trust administrators actively engaged in research, policy and practice issues involving Digital Assets.

Introduction

In general 'digital assets' can be said to include any assets that can be accessed and held online in digital form. Until now the importance of such assets has been overlooked in estate planning and administration. Digital assets are often forgotten by testators/donors when giving an asset list to relatives/practitioners, and it may be too late to rectify this once a fiduciary takes control. Digital assets are held in cyberspace and as such they are truly global, thus raising interjurisdictional issues, particularly when one remembers that online platforms are almost wholly domiciled outside Australia. From an estate planning and administration perspective, difficulties arise because service agreements between users and online platform operators usually stipulate that the contract is between the registered user and the operator. Hence, online platform operators have been either unwilling or unable to allow relatives or trustees to access the personal records and other online material of the account holder in the event of death or disability.

This paper provides a brief discussion of the importance of digital assets in the context of estate planning and administration. The issues discussed also have importance for others providing financial advice, such as financial planners. The lack of clear legislative guidance with respect to the rights to access and bequeath digital assets is challenging client advisors to discharge their duties and causing discomfort to beneficiaries. Legislative intervention is required because of the regulatory need to have uniform responses to the treatment of these assets in the affairs of clients. Best Interest Duty for financial planners is an example of a legislated requirement whose compliance is often frustrated because of inadequate authoritative standards for dealing with digital assets in the estate planning and administration affairs of clients. The paper is divided into the following sections: Section 2 defines and describes digital assets; Section 3 discusses implications for financial planning, estate planning and administration; Section 4 briefly discusses legislative progress in the area of digital assets; and Section 5 provides concluding comments.

Defining Digital Assets

The overwhelming majority of citizens in Australia use email and the internet every day. We suggest few people stop to think of the vast array of digital assets they possess, or reflect on their value and importance in conducting their everyday activities. Accordingly, the first challenge for advisors is to convey the scope and importance of digital assets.

Van Niekerk (2006) proposes that a digital asset is any item of text or media that has been formatted into a binary source that includes the right to use it. Essentially this means any kind of data stored in binary form over which a person has ownership rights. In examining the scope of digital assets Zhang and Gourley (2009) note that they include digital documents, audible content, motion picture and other relevant digital files that may be in current circulation or will be in the future. They further propose that digital assets may be stored on currently existing digital appliances or those that may be developed in the future.

The kinds of assets that could be classified as digital assets, include:

- electronically stored videos and photographs
- email
- financial information such as share trading
- online bank accounts
- blogs
- photos and videos stored on social media sites such as Facebook and Twitter
- domain names and websites
- purchased content from providers such as Amazon and iTunes
- personal financial and health records
- transaction and personal details held on auction sites holding details
- financial online payment systems such as PayPal
- content on government department systems including medical records and tax documents
- cryptocurrencies such as Blockchain and Bitcoin

(Cahn, 2011; The Elder Law Report, 2013).

For business operators, important digital assets include stored assets such as client or customer information.

Implications for Financial Planning, Estate Planning and Administration

Digital assets are an established and growing part of modern society. Faster download speed, reduced hardware costs and more flexible user platforms are encouraging the use of social media, cloud storage, and digital information stored in libraries— making digital assets increasingly attractive, convenient, valuable and, consequently, more important than ever before.

Toygar, Rohm and Zhu (2013) argue that digital assets are similar to tangible and intangible assets that people want to protect, transfer, sell or inherit. For financial planners, digital assets raise several issues, not the least of which are identification and valuation of those digital assets. The majority of digital assets possess monetary and/or sentimental value. Online banks accounts whose values are readily attainable are the most obvious type of digital asset possessing a monetary value. Establishing the value of other digital assets, however, is more problematic.

For estate planners and administrators, digital assets create particular challenges (Connor, 2010). There is explosive growth in the volume of such assets that the average citizen now owns or controls, and yet these digital assets are often overlooked entirely when it comes to writing a will or establishing a power of attorney. As technology has progressed, the number of assets available for transfer to heirs has increased. Further, some assets, such as digital collections, confer only the right to use and not own the purchased content; hence they are not something that can be bequeathed.

For those involved in estate administration, difficulties are experienced when attempting to apply delegated authority (such as power of attorney) to digital assets. The difficulty arises as service agreements between users and online platform operators usually stipulate the contract is between the registered user and operator. Many online providers have End User Licence Agreements (EULA) which restrict access to the digital assets to the named individual, and expressly exclude personal legal representatives. Terms of Service (TOS) and privacy policies are generally mandated during the initial sign-up process. Some of these contain a section entitled 'no right of survivorship and non-transferability', indicating that survivors have no right to access the email accounts of the deceased. Families of deceased or incapacitated users of digital assets are surprised at the difficulty and uncertainty experienced in attempting to deal with such assets. Online platform operators and service providers are usually either unwilling or unprepared to assist in facilitating access to these assets by trustees. For example, many Internet Service Providers (ISPs) do not have rules regarding what happens in the event of the account holder's death or diminished capacity. This problem is exacerbated when a person dies without a will.

As will be discussed further below, the above situation is compounded by the absence of legislation relating to these issues in most countries. Digital assets as a new category is global, which represent a unique barrier to an integrated approach in legal and government spheres, causing a number of issues for fiduciaries having to manage the affairs of a deceased person, or an individual who has lost or is losing their mental capacity.

While the issues for fiduciaries are not restricted just to elderly donors or testators, the rise in both the elderly population and in the numbers having access to the internet has meant that practitioners are seeing a significant increase in cases where digital assets appear and, in turn, an increase in the number of cases where they are unable to discover, access or transfer assets not in a physical format. This is only set to get worse.

This is further compounded by the need for companies providing or hosting digital assets to choose security and privacy over convenience or any form of third party access. There is a collision between the rights and needs of vulnerable people in modern society, and the increasingly global electronic register of our critical information and assets.

Governments, businesses, banks and all manner of other institutions are increasingly moving their data 'into the cloud' in the name of efficiency, cost and improved access. This is supposed to represent the 'democratisation of data' in the information age. Further, medical science is continually improving average life expectancy. However, as more of us live longer, and with increased access to the internet, there has been a significant increase in cases where trusted agents of incapacitated people are unable to discover, access or control digital assets.

Legislative Progress on Digital Assets

As the number of digital assets held by the average person increases, questions surrounding the disposition of these assets upon the individual's death or incapacity are becoming more common. Few laws exist on the rights of fiduciaries over digital assets.

Data sovereignty and jurisdictional law remain of critical concern. With many of the major online providers headquartered in the US, its Patriot Act is a serious concern when it comes to issues of local privacy and confidentiality laws. Both Australia and the EU have expressed concerns about these issues, and the increase in cloud storage will only inflame the situation.

Security of login access to online accounts (especially banking and finance) is also a legitimate concern, and something that must be adequately addressed. However, a mere blanket prohibition upon sharing of passwords is presently impractical in the modern context of a user who has died or suffers diminished capacity. Appropriate protocols must therefore be put in place to permit fiduciaries to access the online accounts of users in appropriate circumstances.

Not surprisingly, most law relating to estate administration was written in the pre-digital age. Due to the uncertain status of ownership and control of digital assets, and the inherent difficulties in extraterritorial application of laws or court orders upon international companies hosting these assets, the need for a major international push for mutually accepted guidelines is clear. Laws in this area are unsettled and vary between countries and even between states within a country.

Legislative reforms are currently underway in various countries that are intended to resolve some of the uncertainty. Currently ten US states have enacted the Uniform Fiduciary Access to Digital Assets Act 2014 (UFADAA) . The Act spells out the rights of fiduciaries with respect to clients' digital assets. Similar legislation is proposed in other countries including Australia.

Concluding Comments

For those involved in providing financial and other advice, an obvious concern is the security of an ever-increasing amount of confidential data. The lack of coherent and consistent legislative guidance across jurisdictional boundaries is obvious and needs to be addressed. Private international law will need to evolve to provide cross border harmonisation of law and practice across jurisdictions. In the meantime, practitioners must seek their own solutions and advice to deal with what can be difficult issues. As a first step, it should become standard for practitioners to identify and examine the digital assets of clients. The TOS agreements clients have entered into with various service providers may stipulate and govern how their fiduciary can work with their digital assets.

Some professional bodies and organisations involved in these issues are actively working with legislators and business to introduce workable solutions to the problems raised above. For example, the Society of Trustees and Estate Practitioners (STEP) has created a Digital Assets Working Group to clarify issues relating to the access, control and ownership of digital assets following the incapacity or death of the registered user. For professionals working in this space the STEP website at http://www.step.org/ provides a range of resources and details of professionals working in this area.

Future research will examine the issue of digital assets in the light of accounting standards and property law. Additionally, the significance of software systems and services as digital assets needs further research.

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