generation life

How can an investment bond help your clients save for their child's education?

THE SITUATION

Meet Mary and John.
Both high income earners with a newborn son, Max. Intending on sending Max to a private school, Mary and John are facing fees of up to $50,284 a year over a 13 year period. They are seeking a tax effective investment strategy that will allow them to save for his entire schooling. Mary and John will need to start drawing down on their investment in 6 years time when Max starts school.

THE INVESTMENT BOND SOLUTION

Mary and John are $226,709 better off (in today's dollar terms) by starting early and saving using an investment bond on an after tax basis, compared to funding school fees out of regular income.

$50k
Initial investment

$1.3k
Initial regular monthly savings amount

$154k
Total contributions within the first 6 years

8%
Earnings after tax p.a.

$331k
Total withdrawals to pay for school fees over a 13 year period

THE BENEFITS COMPARED

Mary and John fund Max's school fees out of an 18 year investment bond

$154,214
Total contributions to their investment bond after 6 years

30%
Tax offset applies to withdrawals in the first 10 years

$2,389
Personal tax on withdrawals from their investment bond

OR

Mary and John pay school fees annually, out of regular income

$482,360
Pre-tax personal income required to fund school fees in today's dollar terms

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How can an investment bond help your clients save for their child's education?

Giving a child a good education can be expensive.

Recent studies have shown that 45% of Australian families will choose to educate their children in a private school, but private school education comes at a cost.

It is estimated that only about half of parents can afford to pay for fees out of their disposable income. Many turn to credit cards, personal loans, extend their mortgages or call upon grandparents for assistance.

How can you ensure your clients have their choice of education options when the time comes?

The key is to have a plan, start early and consider an investment bond as a tax effective, flexible investment solution.

How can an investment bond help?

Investment bonds are a tax effective way to save for the cost of education as they are a tax paid investment. This means the tax paid on investment earnings is paid by us (Generation Life) at a tax rate of up to 30%. This is particularly attractive for high income earners with a marginal tax rate of up to 47%.

Plus, your clients won't need to declare any annual income from their investment bond in their annual tax returns (unless withdrawals are made) and their investment is tax free after 10 years with flexible access throughout.

Compounding returns - your new best friend

Described by Albert Einstein as 'the most powerful force in the universe', compounding returns are the key benefit to starting early.

Simply put, with compound returns, your clients will earn returns not only on their initial investment, but also on the prior returns on their investment. This means that their total return grows exponentially the longer the time frame. The longer they can keep their investment untouched, the more their wealth will grow.

The surprising benefits of a regular savings plan

Investment bonds are flexible investments offering your clients the ability to make regular contributions from as little as $100 per month. Setting up a regular savings plan is an easy way to grow your client's investment without even having to think about it.

Add compounding returns into the mix and they'll be packing their children off to the best school before they know it!

Mary and John, successful married lawyers, intend on sending their newborn son Max to a private school. Max's school fees are expected to reach up to $50,284 p.a. by the last school year. They initially invest $50,000 into an investment bond and start a monthly regular savings plan with an amount of $1,277, increasing at 5% p.a. for the next five years.

Using the investment bond to fund Max's school fees gives Mary and John a significant financial advantage through tax savings compared to funding school fees out of regular income in today's dollar terms.

Although the investment bond has performed well and they have had to declare the assessable portion of withdrawals during the early years (6 – 10 inclusive), in their tax return, their personal tax is very low due to the 30% tax offset they receive up to year ten.

They will only pay a total of $2,389 personal tax on their withdrawals over a period of four years and nothing thereafter.

Initial investment	**$50,000**
Earnings (after tax)	**8% p.a.**
Marginal tax rate (individual)[1]	**47%**
Average regular savings amount p.a. for 6 years	**$17,369**
Total contributions	**$154,214**
Total cost of school fees (withdrawals)	**$331,455**
Annual savings plan escalation	**5%**

Detailed case study cash flow

Investment year	Opening balance	Net earnings	Regular savings amount	School fee withdrawals	Tax assessable portion of withdrawal	Personal tax on withdrawals	Tax offset available	Net personal tax at marginal tax rate	Net withdrawal proceeds	Closing balance
1	$50,000	$4,570	$15,321	$0	$0	$0	$0	$0	$0	$69,891
2	$69,891	$6,179	$16,087	$0	$0	$0	$0	$0	$0	$92,158
3	$92,158	$7,978	$16,892	$0	$0	$0	$0	$0	$0	$117,027
4	$117,027	$9,986	$17,736	$0	$0	$0	$0	$0	$0	$144,750
5	$144,750	$12,221	$18,623	$0	$0	$0	$0	$0	$0	$175,594
6	$175,594	$13,567	$19,554	$15,000	$3,917	$1,841	$1,175	$666	$14,334	$193,715
7	$193,715	$14,239	$0	$15,000	$3,594	$1,689	$1,078	$611	$14,389	$192,955
8	$192,955	$14,179	$0	$15,000	$3,288	$1,546	$987	$559	$14,441	$192,134
9	$192,134	$13,962	$0	$17,000	$2,259	$1,062	$678	$384	$16,616	$189,095
10	$189,095	$13,721	$0	$17,000	$993	$467	$298	$169	$16,831	$185,816
11	$185,816	$13,384	$0	$18,000	$0	$0	$0	$0	$18,000	$181,200
12	$181,200	$13,018	$0	$18,000	$0	$0	$0	$0	$18,000	$176,218
13	$176,218	$12,091	$0	$25,000	$0	$0	$0	$0	$25,000	$163,309
14	$163,309	$10,781	$0	$28,750	$0	$0	$0	$0	$28,750	$145,340
15	$145,340	$9,027	$0	$33,063	$0	$0	$0	$0	$33,063	$121,304
16	$121,304	$6,742	$0	$38,022	$0	$0	$0	$0	$38,022	$90,024
17	$90,024	$3,825	$0	$43,725	$0	$0	$0	$0	$43,725	$50,124
18	$50,124	$160	$0	$50,284	$0	$0	$0	$0	$50,284	$0

Did you know

Pay no personal tax on your investment if you make no withdrawals in the first ten years. After that, you can consider the tax on your investment bond paid.

Investment bonds are the most tax effective investment solution after super, with no restrictions on when you can access your funds.

Investment bonds allow you to contribute up to 125% of your previous year's contributions and still maintain the valuable tax status.

No capital gains tax on switching or when ownership of the investment bond is changed.

The investment bond owner can select when and how their investment is passed on through our Future Event Facility.

The longer you hold an investment bond the more tax effective it becomes.

Find out how Generation Life's investment bonds can help your clients start saving for their child's education today.

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Outthinking today.

Generation Life is Australia's leading investment bond provider.[1]
We have been providing Australians with tax-effective, flexible investment solutions since 2004.

Get in touch with Generation Life

To find out more visit www.genlife.com.au. Alternatively contact your local Distribution Manager or our Adviser Services team on:

Phone 1800 333 657

Email enquiry@genlife.com.au

1. Includes Medicare Levy
2. Source: Investment Bonds Report – Plan for Life Actuaries and Researchers – 31 March 2021