

Did you know you can offer your clients a tax effective way to transfer wealth between generations?

THE SITUATION

Meet Elizabeth.

70 years old and widowed. Thinking ahead, Elizabeth is looking for a tax effective way to leave an inheritance to each of her five grandchildren. She wants to make sure her eldest grandson (who isn't good with money) doesn't get access to his inheritance too early. She wants to also make sure the money will go to her grandchildren, rather than her estranged son-in-law. She needs certainty that her wishes will be carried out whether she is alive or not.

THE INVESTMENT BOND SOLUTION

Elizabeth has control and peace of mind over her inheritance using an investment bond's estate planning features.



\$500k

Total investment



\$400k

4 x \$100,000 ChildBuilder investment bonds



\$100k

1 x \$100,000 LifeBuilder investment bond

THE BENEFITS COMPARED

Elizabeth plans to leave an inheritance by setting up 5 investment bonds:

4 x \$100k + 1 x \$100k

ChildBuilder set to transfer on 25th birthdays of four youngest grandchildren

- Automatic transfer at specified ages
- Full ownership and control until transfer
- No annual tax or CGT reporting
- Investment transferred tax free

LifeBuilder set to transfer with access restricted until the 30th birthday for eldest grandchild

OR

Elizabeth plans to leave an inheritance through her will:

\$500k

Distributed via a will

- Accessed with no conditions after her passing
- Can be legally contested
- Probate required
- Estate administration fees
- Possible tax implications for non-dependents

Leaving wealth to future generations can get complicated

Effective estate planning results in the right assets going to the right people, at the right time, with a minimum of fuss, expense and inconvenience.

The ultimate objective is certainty and peace of mind. Not getting it right can result in:

- The wrong people receiving benefits or assets
- Additional legal fees and costs
- Delays in distributing estate proceeds
- Potential challenges by disgruntled beneficiaries and others

Investment bonds can offer certainty and peace of mind over how your client's wealth will be transferred.

How can an investment bond help?

Investment bonds have features that can be used in conjunction with, or as an alternative to, conventional estate planning tools such as a will, a testamentary trust or superannuation.

Investment bonds provide an efficient and cost effective way to provide for estate planning and intergenerational wealth transfer, all within a tax effective environment.

Generation Life has three options to help your clients pass on their wealth

LifeBuilder - Beneficiary Nomination





By setting up your client as the life insured under an investment bond they can nominate one or multiple beneficiaries to receive the proceeds of the investment on their death in whatever proportions they choose. Your client can nominate individuals, companies, trusts or charities as beneficiaries.

The investment bond won't form part of the client's estate. Key benefits of this feature include:

- No delays associated with probate or estate administration - proceeds paid directly to beneficiaries
- Proceeds are received tax free in the hands of the beneficiaries
- Proceeds pass outside of the will and legal estate - avoiding possible challenges and claims
- No requirement to regularly re-affirm beneficiaries
- Flexibility to add or remove a beneficiary, as well as change the benefit percentage allocations at any time.

LifeBuilder - Future Event Transfer

A unique feature of LifeBuilder is the ability to select a future date (including death) for the automatic transfer of your client's investment to a nominated owner or joint owners (including companies or trusts). Key benefits of this feature include:

-  **Peace of mind** – your client controls when the future transfer happens and can change it at any time
-  **Access and control** – your client continues to have control and access to their investment up to the transfer occurring
-  **Tax effectiveness** – the 10 year advantage period isn't re-set on transfer and there's no personal income or capital gains tax consequence.
-  **Estate management** – the delays and administration associated with obtaining probate are avoided

Importantly, your client can also pre-arrange how their investment will be accessed by the new owner. They can nominate a date or period after which funds can be accessed or set a maximum annual withdrawal limit.

It is a simple and cost effective alternative to a testamentary trust structure to manage intergenerational wealth transfer.

ChildBuilder

ChildBuilder is designed for anyone (parents, grandparents, family and friends) that want a simple, cost effective way to create inheritances for children and transfer wealth between generations.

Your clients can set up a ChildBuilder for anyone under 16 years of age and vest (transfer) ownership to the child when they reach a specified age (between 10 and 25 years). The vesting is automatic and with no personal tax consequence, no stamp duty, and no additional fees or charges.

Your clients can also pre-arrange how the child accesses their funds, including setting an annual limit on how much can be withdrawn after the vesting date. They can also set the length of time that the annual withdrawal limit will apply for.

Your client can even specify a non-binding intended purpose for the use of a ChildBuilder once the investment has vested in the child.

Elizabeth, a widow in her 70's, wants to leave \$100,000 to each of her five grandchildren (the youngest aged 6 and the eldest aged 18).

She wants a tax effective investment she can transfer at age 25 for the younger grandchildren and restricted access to funds for her eldest grandchild until his 30th birthday (who isn't that good at managing his finances).

Elizabeth also has an estranged (ex) son-in-law who is a parent of two of the grandchildren. She wants to be sure that he can't access any of the money.

Elizabeth doesn't want this arrangement to form part of her estate as she's worried that one of her sons might challenge her will if he learns that the grandchildren will receive a large portion of her estate.

STRATEGIC SOLUTION

- Elizabeth sets up four \$100,000 ChildBuilder investment bonds for the four youngest grandchildren. These have been set up to transfer to each grandchild on their respective 25th birthdays.
- Elizabeth also sets up a \$100,000 LifeBuilder investment bond for her eldest grandchild with a Future Event Transfer date, with a restriction on access to the funds up until his 30th birthday.
- Elizabeth could, if she wanted to, specify conditions for the Childbuilder investment bonds on access to funds by the grandchildren, but has chosen not to.

BENEFIT

Elizabeth has managed to successfully set up inheritances for her grandchildren.

The four ChildBuilder investment bonds will automatically vest to each of her nominated grandchildren at age 25. If Elizabeth dies before vesting, the ChildBuilder must be held in trust for the benefit of the child. The LifeBuilder investment bond with a Future Event Transfer election will transfer to her oldest grandson on her death with access to funds once he reaches age 30.

Until transfer, Elizabeth retains full ownership and control of all her investment bonds. Should she have a change of mind about a grandchild she has complete flexibility to make withdrawals, switch investments and alter transfer ages at any time.

Elizabeth will have no annual tax or CGT reporting obligations as the investment bonds do not distribute taxable income or realised gains.

The benefit to Elizabeth's grandchildren is that the investment bond will be inherited completely tax free. Further income generated from the investment bonds will also be tax free as the ownership transfer occurs 10 years after the original investment.

Once transferred, each grandchild can elect to continue holding the investment bond or make partial or full withdrawals tax free (subject to any conditions she may impose).

Further benefits

- Elizabeth could have specified additional withdrawal conditions after transfer, including delaying access to the funds, and placing annual limits on the amount that a grandchild could withdraw.
 - The Future Event Transfer feature offers your clients the flexibility to change the intended recipient at any time. Clients can also nominate joint owners to receive the investment bond transfer as well as companies or trusts.
 - Future Event Transfers can also be arranged to occur at a specified date prior to death.
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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.

You can use a Bond Nomination for private, philanthropic bequests to charities, churches hospitals and schools.

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.

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

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

Find out how Generation Life's ChildBuilder and LifeBuilder can help you offer your clients tax efficiency and peace of mind over intergenerational wealth transfer.





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:

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