Generation Life Investment Bond Strategies

For financial adviser use only

Outthinking today.

Discover a world of strategies to help you meet your clients' needs

Contents

Introduction

Investment bonds are the ideal tax-effective solution for investors to help them achieve their investment goals with flexibility and certainty.

Now, as a very cost-effective solution, combined with broad investment options covering every asset class, Generation Life investment bonds can assist with all of life's various stages and enhance an investor's wealth strategy.

Investment bonds accommodate a wide range of investment needs such as wealth creation, tax planning, giving a child a financial head start, retirement savings and intergenerational wealth transfer.

Generation Life's investment bond solutions

As the pioneer of Australia's first truly flexible investment bond, we have been at the forefront of providing innovative tax-effective solutions since 2004.

As a regulated life insurance company, our goal is to continue to offer market leading tax-effective investment solutions that provide a flexible alternative and meet a wide range of investment needs and strategies for all life stages.

Our solutions include:

LifeBuilder

Putting you in control

LifeBuilder caters for a wide range of investment needs and life stages. With a growing list of investment options, LifeBuilder provides the flexibility to switch between options at any time with no personal tax implications. Investors can also add to their investment regularly and have their investment mix automatically rebalanced to reflect their preferred investment allocation. Simple reporting removes the burden of maintaining significant and detailed records for tax reporting purposes.

Solution benefits:

- Tax-effective, with earnings taxed at a maximum rate of 30%
- A convenient way to manage estate planning and the transfer of intergenerational wealth with the ability to control access to funds
- No personal tax payable on earnings if held for at least 10 years.

ChildBuilder

Looking after the next generation

ChildBuilder is specifically designed for any investor (parents, grandparents, family, and friends) wanting to establish a tax-effective investment for a child's future financial needs and goals. Investors can set up a ChildBuilder for anyone under 16 years of age and vest (transfer) ownership to them when they reach a specified age (between 10 and 25 years). The vesting is automatic and incurs no personal tax consequences, no stamp duty and no additional fees or charges.

When vested, the investment converts to a LifeBuilder, and the 10-year tax advantage period is not reset.

Solution benefits:

- Tax-effective wealth accumulation for use by children
- Enables estate planning and the transfer of wealth to children
- Access to funds for personal use if required in the meantime.

FuneralBond

Providing peace of mind

FuneralBond enables investors to plan and save for their funeral expenses, which can be a practical and thoughtful gesture, easing unnecessary financial stress on those left behind during their time of grief.

Solution benefits:

- Tax benefits, with earnings taxed at a maximum rate of 30%
- Exempt (up to certain limits) from the social security assets test and deeming provisions for the income test that applies to the age pension, service pension and other means tested Government entitlements
- Ability to transfer ownership of the investment to a funeral director as part of a prepaid funeral arrangement.

01.

The most tax-effective investment solution after superannuation

Superannuation is generally the most tax-effective investment vehicle available to investors, although there are some restrictions and conditions when it comes to making contributions and receiving withdrawal benefits.

Depending on their circumstances, investors may be limited in how much they can contribute because they have either exceeded their concessional and non-concessional annual contribution limits, their transfer from accumulation to retirement phase exceeds the total balance cap of up to $1.9m, or they simply want ready access to their funds.

Superannuation may not provide the flexibility needed by an investor so if they're looking to grow their wealth in a tax-effective way, they may need to look elsewhere.

Limitations of superannuation

While superannuation receives tax concessions, there are conditions attached. The restrictions and limits around superannuation may mean that an investor may wish to consider alternative investment strategies that complement their overall retirement strategy.

Restricted access to invest

Generally, to be able to make superannuation contributions (including salary sacrificed contributions by your employer), an investor must be under 75 years of age - without needing to meet a work test.

However, if you want to claim a tax deduction on your personal contribution, you will need to satisfy the work test requirement.

To meet the work test, you must be gainfully employed for at least 40 hours during a consecutive 30-day period in the financial year in which the contributions are made.

Contribution limits

Employer contributions (including salary sacrifice) and contributions where a tax deduction is received, known as concessional contributions, are generally limited to $27,500[1] in a financial year. If concessional contributions are above the limit, an excess contribution charge and a tax return will need to be lodged.

1 For the 2023-2024 Financial year.

Personal contributions from an investor's after-tax income (non-concessional) are limited by the total superannuation balance cap of $1.9m, and also by the non-concessional contributions cap of $110,000 in a single financial year (with the ability to potentially utilise the 3-year bring forward rule until age 75 from 1 July 2023. If non-concessional contributions exceed the limit, then additional tax at a rate of 47% may be payable – unless the excess contributions are released (with lesser tax assessed).

The maximum that can be transferred to a superannuation pension account is determined by the investor's transfer balance cap – which is up to $1.9m from 1 July 2023 and indexed annually (for investors who start their retirement phase pension from that date).

If assessable income and concessional contributions (such as employer contributions) are more than $250,000 in a financial year, then an additional 15% tax (commonly referred to as Division 293 tax) may be payable on some or all of the concessional contributions[2].

Access to funds

There are restrictions on when superannuation can be accessed. Access to funds is typically restricted until 'preservation age' is reached and the investor is retired. Preservation age is currently 55 for an investor born before 1 July 1960, gradually increasing up to age 60 for investors born after that date. There are some exceptions to the preservation age requirement including where permanent disability or financial hardship is demonstrated.

Transferring ownership

Superannuation balances cannot be transferred outside of the superannuation environment, while there are limits on the ability to transfer balances within superannuation. Superannuation limits transfers only to a spouse and only up to 85% of an investor's concessional contributions made in each financial year.

Non-concessional contributions cannot be transferred. A spouse must be under 55 years of age if retired, or between 55 and 65 years of age if not retired, to be eligible for ownership transfer.

2 Different rules apply for calculating Division 293 tax for members of a defined benefit fund.

Death benefit nominations

Under superannuation legislation, death benefits must be made payable to a 'dependant' as provided for under the legislation. Beneficiaries that an investor nominates must be proven to be a dependant of the investor, otherwise death benefits may not be paid to the person, and instead paid to the estate and be subject to tax.

Depending on the superannuation fund's rules, for a nomination to be binding on the fund's trustee, the nomination may need to be renewed every three years. Lump-sum superannuation death benefits paid to non-tax dependants may be taxed. For non-tax dependants, tax will be payable on any taxable component of the lump-sum superannuation benefit, which may include both a taxed and/or untaxed element. The taxed element is subject to a maximum tax rate of 15%[3] plus the Medicare levy. The untaxed element is subject to a maximum tax rate of 30%[3] plus the Medicare levy.

Borrowings

You are restricted from using your superannuation as security for a loan or to use it to gear your investments. Even borrowing to invest within a self-managed superannuation fund can be complicated with having to set up special borrowing structures and trustee guarantees, not to mention the legal obligations as a trustee and interest costs that are only tax deductible within the self-managed superannuation fund.

3 Current as at 1 July 2023.

How a Generation Life LifeBuilder can help

The Australian Government's changes to superannuation in July 2017, which included superannuation concessions and the restrictions on the use of superannuation as a wealth generating and estate planning vehicle, have since driven a renewed interest in the use of investment bonds. An investment bond is a simple, tax-effective, flexible alternative to supplement superannuation without complexities or any administrative burden. Unlike superannuation, an investment bond provides unrestricted access to benefits with no preservation age, retirement or purpose test required.

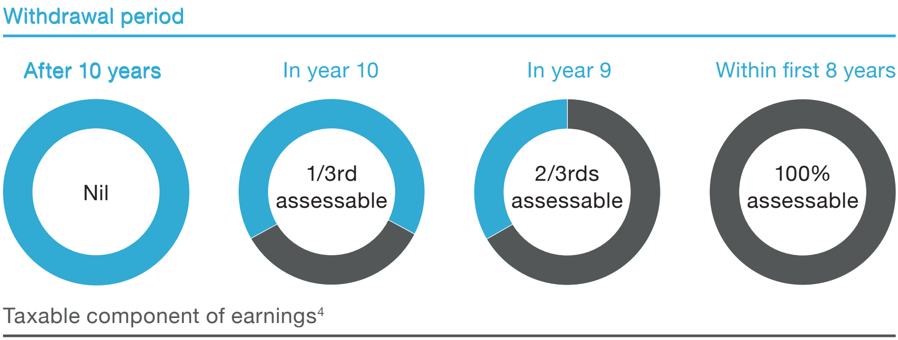
Below is a list of benefits a LifeBuilder investment bond can provide:

Eligibility to invest: Unlike superannuation, where only an individual can invest, LifeBuilder provides for a number of ownership types including any legal estate. An investor can set up a LifeBuilder as an individual, a joint investor, or a private/discretionary trust depending on their personal circumstances and investment requirements.

Tax-effective structure: Similar to superannuation, LifeBuilder provides a tax paid structure where tax is paid within the investment bond, but at a maximum rate of 30% (franking credits, tax management and other deductions typically results in a lower effective tax paid rate).

Access to funds: LifeBuilder provides unrestricted access to benefits with no preservation age, retirement or purpose test required.

Proceeds received from partial or full withdrawals made after 10 years are considered a tax-free receipt and are not subject to personal income tax or capital gains tax. Where an investor fully or partially withdraws from an investment bond within the first 10 years of investment, the earnings component will generally attract personal tax. The apportioned earnings included in the withdrawal will be assessable as follows:



A 30% tax offset entitlement is available to reduce the amount of tax (if any) payable by the investor.

No contribution caps: Unlike superannuation, there is no work test or aged based restrictions on investing in a LifeBuilder investment bond. There is no cap to the amount that can be invested in the first year that the investment bond is held. Contributions made in the second and subsequent investment years are limited to 125% of the previous year's total contributions in order to prevent the re-start of the 10-year tax holding period.

4 The taxable component is on the earnings (growth in value) of the investment and excludes the value of the initial contribution.

Nominating beneficiaries: Beneficiaries nominated under a LifeBuilder are not required to be a dependant. There are no restrictions on who can be nominated as a beneficiary, which can include a person, company, charity or trust.

There is also no requirement to nominate or re-nominate a beneficiary every three years in order to make the nomination binding (unlike some superannuation funds). The death benefit from the LifeBuilder is also paid tax-free to the beneficiary (irrespective of whether the beneficiary is a financial dependant or not). By nominating a beneficiary, the proceeds of the investment upon the death of the owner do not go through the estate and are not subject to probate. The details of the benefit payment are also not in the public domain and can be paid out quickly.

Transferability: Unlike superannuation where the account must be held in an individual's name and has limits on transferability to a spouse, a LifeBuilder investment bond can be transferred to any third party at any time generally with no personal capital gains tax consequences. The new owner assumes full ownership with no break in ownership from a tax perspective.

Borrowing: LifeBuilder can be used as security against a loan. If your loan is used to generate income, interest and other loan-related costs may be tax deductible. There are no additional complicated structures to set up other than the borrowing arrangement with the lender.

Managing superannuation contribution caps

CASE STUDY

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Currently earning:
$200,000 p.a.

Super Guarantee (SG) contributions:
$22,000 p.a.

Concessional contributions cap:
$27,500 p.a.

Superannuation balance: **>$1.9m**

Concessional contribution limit is capped out and unable to make non-concessional contributions into superannuation as balance is >$1.9m

LifeBuilder

Contributions increased by $15,000 in the 1st year

Contributions increased by 10% in 2nd and subsequent years

Access to funds at any time

No personal tax after 10 years

Scenario

Anna is 55 years old and is on the highest marginal tax rate of 47%.[5] She currently earns and expects to earn $200,000 plus super guarantee (SG) contributions of $22,000 each year.

She salary sacrifices $5,500 each year into her superannuation to maximise her concessional cap of $27,500 p.a.[6] Anna's superannuation balance is $1.95m and is therefore unable to make non-concessional contributions into her account as her balance is in excess of $1.9m.

Objective

Anna wants to maximise her retirement contributions and is able to contribute a further $15,000 each year but is not able to make further Superannuation contributions.

Solution

- Anna has capped out the maximum she is able to contribute under the concessional contribution limits.
- She uses a LifeBuilder to contribute an equivalent after tax amount of $15,000 in the first year of investment.
- Anna increases her annual contribution in the second and subsequent years by 10% each year.

5 Includes Medicare Levy of 2%. Current for the 2023-24 tax year.
6 Concessional cap for 2023-24 tax year.

CASE STUDY

Benefit

By age 65, Anna will have contributed $55,000 in concessional contributions (through salary sacrificing) into her superannuation (the maximum permitted in her case). She will also have contributed an additional $239,061 into a tax-effective LifeBuilder where earnings are taxed at a maximum rate of up to 30% compared to her marginal tax rate of 47%.[7]

Anna is also able to access her LifeBuilder benefits prior to her intended retirement age if she needs to. Furthermore, she will have peace of mind knowing that if the rules to accessing superannuation change, she will still have access to funds through the LifeBuilder investment.

Anna does not need to worry about any personal tax liability on earnings and growth, or paying tax at her own higher personal marginal tax rate, while the funds are invested. After 10 years, any withdrawals she makes are paid with no further personal tax liability provided she invests within the 125% Opportunity rules.

She is also able to use her investment bond as security against a loan and make her investment work even harder for her.

With her LifeBuilder, Anna has the added comfort of knowing any future death benefit paid can be received tax-free by whomever she nominates as a beneficiary – whether paid directly from her investment (for a LifeBuilder beneficiary), or indirectly via her estate (for a will beneficiary).

7 Includes Medicare Levy of 2%. Current for the 2023-24 tax year.

Managing superannuation contribution caps

CASE STUDY

Superannuation balance: **$500,000**

Inheritance: **$700,000**

Non-concessional contributions capped out, seeking a tax-effective way to invest

LifeBuilder

Choice of investment options

No additional contributions tax or charges

Access to funds at any time

Option for regular income stream payments

No personal tax after 10 years

Scenario

Georgia is 55 years old, is on the highest marginal tax rate of 47%[8] and has made personal (non-concessional) contributions into her superannuation. Her current superannuation balance is $500,000.

Georgia recently came into an inheritance of $700,000 and wants to maximise her superannuation contributions and save for her retirement as tax-effectively as possible.

Objective

Georgia is looking to invest her inheritance for her retirement in a tax-effective way but has reached her non-concessional contributions caps limit and does not want to pay additional tax and charges if she were to contribute more into her superannuation account.

Solution

Georgia invests the funds from her inheritance in a LifeBuilder to gain exposure to a wide range of investment options.

8 Includes Medicare Levy of 2%. Current for the 2023-24 tax year.

Benefit

Georgia can tax-effectively save for her retirement without incurring any additional contributions tax or charges.

While Georgia's objective is to save for her retirement, she has the flexibility to make a withdrawal if she needs access to her funds.

She also has the option of structuring the investment with regular income stream payments on her retirement, without any additional personal tax paid on the regular payment amount as she has held the investment for at least 10 years.

Georgia's estate planning needs have been taken care of. She is able to nominate beneficiaries with the proceeds paid directly, and they do not form part of Georgia's estate. The beneficiaries do not need to declare the income on their tax return. The investment bonds do not form part of Georgia's estate, and therefore bypass her will.

Death benefit nominations

CASE STUDY

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Superannuation balance: **$600,000**

Property sale proceeds: **$500,000**

Needs a tax-effective way to invest and peace of mind to select a beneficiary

LifeBuilder

Non-concessional superannuation contribution of $110,000

New wife now a superannuation beneficiary

$390,000 invested into a LifeBuilder investment bond

Son nominated as the beneficiary of the LifeBuilder in the event of death

No tax payable on death benefit to son

Scenario

Richard is 68 years old and has recently remarried. Richard has recently sold an investment property and received a cash payout of $500,000. Richard has $600,000 in his superannuation account.

Objective

Richard wants to invest the proceeds in a tax-efficient manner and wants to ensure that in the event of his death, his eldest son Paul (who is 25 years old and living away from home) receives some of the payout proceeds (plus future earnings and capital growth).

Solution

- Richard makes a non-concessional superannuation contribution of $110,000 and nominates his new wife as a beneficiary under his superannuation plan as a dependant.
- Richard invests $390,000 into a LifeBuilder and nominates his son Paul (who is not a dependant) as his nominated beneficiary in the event of his death.

Benefit

By investing in a LifeBuilder, Richard is able to nominate his son Paul as a beneficiary in the event of his death. There would be no tax payable by his son Paul as a result of the receipt of the death benefit payment.

In addition, by nominating a beneficiary, the tax-free proceeds from the LifeBuilder investment are treated as a non-estate asset. This means the proceeds would not form part of Richard's estate and potentially helps avoid challenges and claims that can be associated with a will. As a non-estate asset, the investment is also not subject to probate requirements and the delays that are normally associated with a will arrangement.

Death benefit nominations

CASE STUDY

Scenario

Gwen is 82 years old and is in poor health. Gwen has accumulated $950,000 in her superannuation account with her adult children (all aged in their 50s) nominated as beneficiaries on her death. The taxable component of her superannuation is $350,000. Based on today's value, a benefit payment to her adult beneficiaries would result in a tax penalty of $59,500 (17%[9] x $350,000) payable.

Objective

Gwen wishes to eliminate any death benefit tax penalties.

Solution

- Gwen withdraws her superannuation which is paid tax-free as she is over 60 years of age.
- She invests the proceeds of her superannuation withdrawal into a LifeBuilder investment bond, nominating her adult children as beneficiaries under the EstatePlanner feature.

Benefit

By investing in a LifeBuilder investment bond, Gwen's beneficiaries can receive tax-free death benefits.

By nominating a beneficiary, the LifeBuilder investment is treated as a non-estate asset. This means the proceeds would not form part of Gwen's estate and potentially helps avoid challenges and claims that can be associated with a will. As a non-estate asset, the investment is also not subject to probate requirements and the delays that are normally associated with a will arrangement.

Superannuation balance: **$950,000**

Forecast superannuation death benefit tax penalty of **$59,500**

Looking to avoid death benefit tax penalties

LifeBuilder

$950,000 invested into a LifeBuilder investment bond

Adult children nominated as beneficiaries using EstatePlanner

No tax payable on death benefit payments

Investment treated as a non-estate asset

9 15% plus Medicare Levy as at 1 July 2023.

Death benefit nominations

CASE STUDY

Investment property sale: **$500,000**

Seeking a tax-effective way to invest and ability to pass benefits into his family trust

LifeBuilder

$500,000 invested into a LifeBuilder investment bond

Nominates family trust as the beneficiary in the event of his death

No tax payable on death benefit payments

Investment will be treated as non-estate asset

Scenario

John is 55 years old, and has recently remarried. John has recently sold an investment property and received a cash payout of $500,000.

Objective

John wants to invest the proceeds in a tax-efficient manner and wants to ensure that for estate planning purposes he can pass on the benefit into a family trust.

Solution

- John invests the proceeds of his investment property sale of $500,000 into a LifeBuilder.
- He nominates his family trust as the beneficiary in the event of his death.

Benefit

By investing in a LifeBuilder, John has ready access to his funds if required and unlike superannuation beneficiary nominations, can nominate the family trust as the beneficiary in the event of his death.

There would be no tax payable by the family trust as a result of the receipt of the benefit. The trust is free to distribute proceeds of the benefit payment to its beneficiaries as the trustee determines.

If John had made a non-concessional contribution into superannuation, John would not have access before retirement age and would not be able to nominate his family trust as a beneficiary in the event of his death.

In addition, by nominating a beneficiary, the tax-free proceeds from the LifeBuilder investment are treated as a non-estate asset. This means the proceeds would not form part of John's estate and potentially helps avoid challenges and claims that can be associated with a will. As a non-estate asset, the investment is also not subject to probate requirements and the delays that are normally associated with a will arrangement.

02.

Estate planning – being in control of transferring your wealth

Australians are expected to inherit an estimated $3.5 trillion over the next 20 years, growing at 7% each year. Each recipient is expected to inherit an average of $320,000.[10]

10 McCrindle (2016). Wealth Transfer Report, A Report for No More Practice, September.

Estate planning is an important mechanism in ensuring the transfer of wealth to future generations. Unfortunately, research shows that 70% of families fail to successfully transfer their assets from one generation to the next.[11]

Having a well-structured long-term plan on how and when assets are transferred will help ensure that investment intentions are met and that the intended beneficiaries will be looked after. With unique dynamics in families, a one-size-fits-all approach may not be possible or desirable. Having a well-integrated plan is vital to ensuring the successful transfer of wealth between generations.

It is important to ensure that the assets accumulated over a lifetime are left for the benefit of those intended. Not getting it right can result in adverse and unintended consequences including:

- the wrong people receiving benefits or assets due to changing family circumstances
- high legal fees and costs to collect and administer assets
- delays in distributing estate assets placing undue financial hardship on beneficiaries and incurring additional costs
- potential disputes and challenges by disgruntled beneficiaries and others resulting in delays and costs, and the potential for an investor's wishes not being met; and
- additional taxation being incurred resulting in an erosion of wealth and reducing the value of the estate.

A study into the effectiveness of wills found that around 75% of wills contested under Family Provisions legislation were successful.[12] Effective estate planning ensures that the right assets go to the right people at the right time, with minimal fuss and added expense. The ultimate objective is certainty and peace of mind for investors.

11 Williams and Preisser, Philanthropy Heirs & Values, Robert D. Reed Publishers, 2005.

12 UNSW Law Journal (Volume 38(3)), Estate contestation in Australia: an empirical study of a year of case law, Ben White et al.

The goals of estate planning

Estate planning is a vital part of a holistic financial plan that ensures the shared goals of parents and children are met. Effective estate planning can assist with:

- managing the interests of vulnerable beneficiaries
- ensuring support for the surviving spouse and family
- protecting the inheritances of beneficiaries
- protecting assets from third party claims
- establishing a means to manage capital for the benefit of current and future generations; and
- tax minimisation for the estate and beneficiaries.

Issues to consider

There are a number of ways to manage estate planning outcomes including the use of a will, a testamentary trust or superannuation nominations. Some of the key issues to consider when assessing these alternative estate planning mechanisms are summarised below:

Wills: Wills are a common mechanism for intergenerational wealth transfer. Setting up a will means that when the person dies, probate will generally need to be obtained. This is normally done by the executor to prove the validity of the executor's authority. Obtaining probate is an additional cost in terms of time, money and delays that may need to be considered. In addition, once probate is granted, the probate and the will become public documents which can be viewed by the general public.

Legal challenges can be made because of disgruntled estate beneficiaries and other interested parties left out of the will, or someone just being unhappy and wanting to overturn elements of the will, such as a charitable bequest. This can cause costly, lengthy (and stressful) legal disputes.

Wills also cannot alone provide for lasting and intergenerational arrangements without the additional cost and effort involved in setting up a testamentary trust. Wills may also become invalid due to changes in circumstances (such as marriage) or errors on executing or processing.

Testamentary trusts: Testamentary trusts are a common vehicle to pass on wealth and can also establish a level of estate planning control. These are not straightforward structures and are usually created under a person's will.

A testamentary trust not only requires establishing the trust under a will and finding 'willing' trustees, but they can be impracticable for smaller dollar bequests. As a form of trust, they also incur annual administration and tax reporting costs and can be inflexible and costly to unwind.

Additionally, it's important to remember that there are legislated anti-avoidance measures to ensure that income received by minors from non-estate assets held in a testamentary trust is taxed at the higher minor rates.[13]

Superannuation: Under superannuation legislation, death benefits are normally payable to a nominated beneficiary. If a nomination is not made, the trustee will pay the death benefit to the estate or use its discretion to determine which eligible beneficiaries the superannuation proceeds should go to.

Beneficiaries that an investor nominates must generally be proven to be a dependant, such as a spouse, children (any age), or anybody with an interdependency (including financial dependency) on the deceased. Different tax treatments can apply depending on whether the benefit is paid as a lump sum, income stream or mixture of both, and if the beneficiary or beneficiaries are classified as 'tax dependants'.

A tax dependant includes:

- a spouse or de facto spouse (including former spouses)
- any children of the deceased (under 18 years old)
- a person that is financially dependent on the deceased; and
- a person with an interdependency relationship with the deceased.

Lump-sum superannuation death benefits paid to non-tax dependants may be taxed. For non-tax dependants, tax will be payable on any taxable component of the lump-sum superannuation benefit, which may include both a taxed and/or untaxed element. The taxed element is subject to a maximum tax rate of 15% plus the Medicare levy. The untaxed element is subject to a maximum tax rate of 30% plus the Medicare levy.

13 Division 6AA of the Income Tax Assessment Act 1936.

Establishment and administration costs: In the case of wills and testamentary trusts, in addition to set up costs, there may also be fees for the administration of the deceased's estate (for example professional service providers such as an accountant, solicitor or trustee company appointed as the executor).

An estate may for example be charged a percentage of the value of the estate plus a percentage of all income earned by the estate. Where a fee is not contemplated in a will, there may be additional delays in applying to the Courts for the fee rate. The maximum that can be charged by an executor to administer an estate will vary between States and Territories.

Costs associated with the drafting of wills, testamentary trusts and obtaining probate can run into the thousands of dollars, if not more (depending on the complexity involved, which can also involve a solicitor). There may also be additional costs if the estate is required to lodge tax returns and file other documents with relevant authorities.

Financial impact on beneficiaries: Thought must also be given to the consequences when making a gift that can occur in the hands of the beneficiary for payment of any capital gains tax or on a beneficiary's entitlement to receive pensions or other entitlements.

How a Generation Life LifeBuilder can 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 (for immediate post-death bequests), a testamentary trust (for future bequests and for making intergenerational wealth transfers), and superannuation.

Investment bond beneficiary nomination features draw upon various facets and legal mechanisms usually found in basic wills. As such, leaving bequests by making an investment bond nomination can achieve 'will-like' estate planning outcomes and pass on tax-effective and confidential inheritances outside wills and legal estates.

Investment bonds provide an efficient and cost-effective means of providing for estate planning and intergenerational wealth transfer including:

Where no valid will exists: An investment bond that has nominated beneficiaries or where it has been pre-arranged to transfer ownership on death, is treated as a non-estate asset (similar to superannuation) and therefore is not subject to legislative based benefit distribution formulas that vary from State to State. It also avoids the costs and delays associated with appointing an administrator.

When a beneficiary is nominated, the proceeds will be paid directly to the beneficiary or entity regardless of whether a valid will exists or not. Similarly, if a future transfer occurs on death, ownership of the investment will be transferred to the intended recipient in whole.

Wills: A LifeBuilder with a nominated beneficiary or where ownership is transferred on the death of the investor is treated as a non-estate asset. In this case the investment bond has a number of benefits over a typical will arrangement including:

- no additional costs involved in setting up a will
- no requirement to obtain probate or administration of the estate (including not requiring to be filed in the public domain); and
- benefit proceeds or ownership pass directly (and privately) to the nominated beneficiaries, potentially reducing the possibility of estate claims, including for family provision or in testator's family maintenance challenges.[14]

Using a LifeBuilder beneficiary nomination may be useful for:

- providing for blended families to financially provide for children of previous relationships, for a new spouse's children or for estranged children – whilst using a conventional will to provide for a current spouse and children
- solving potential conflicts and inequities between children and grandchildren that might be complex and difficult to handle under a will
- making charitable bequests to organisations such as charities, hospitals, schools and religious groups (beneficiaries or intended future transfer owners may be a natural person, an entity including a company or trust); and
- privately meeting moral obligations to non-related parties and friends.

14 In NSW the general (and long-established) legal position of investment bond nomination proceeds constituting 'non-estate' assets may in certain circumstances be open to challenge under Chapter 3 of the Succession Act 2006 (NSW). This Act applies to financial products (such as investment bonds, annuities, and superannuation benefits) that are issued to persons whose estates are subject to that Act and where: (1) a beneficiary nomination is made within three years of the death of the life insured; (2) the Court makes certain family provision orders; and (3) where the beneficiary nomination was made with the intention of denying or limiting provisions of an eligible estate beneficiary. There are certain eligibility requirements and time restrictions for claimants. The Court must formally approve a claim, which may involve a 'claw back' as notional estate assets to meet claims that are not satisfied from the estate. There are certain eligibility requirements and time restrictions for claimants. The Court must formally approve a claim, which may involve a 'claw back' as notional estate assets to meet claims that are not satisfied from the estate.

Testamentary trusts: As an alternative, parents (and especially grandparents) can use an investment bond to plan ahead with peace of mind about how, when and to whom their estate's wealth (or part of it) will be distributed to the next generation. An investment bond has a number of benefits compared to testamentary trusts including:

- not requiring to be set up under a will
- not requiring the appointment of a willing and competent trustee
- can be structured to meet small and large value bequests; and
- no ongoing tax reporting and administrative tasks.

Benefits paid due to death, accident, illness or other disability of the life insured named (which may be the investor) is a tax-free receipt, even if the event occurred within the first 10 years of investment.

Supplementing superannuation: Investment bond and superannuation death nominations can similarly operate to directly distribute investment proceeds on the death of the investor and bypass the will and legal estate. Unlike superannuation death benefit nominations, a LifeBuilder nomination or future transfer arrangement is neither subject to trustee discretions, nor does it include natural person or 'dependant' restrictions on the possible beneficiaries or recipients.

Additionally, LifeBuilder beneficiary nominations or future transfer on death instructions once made do not have to be periodically refreshed or reconfirmed in future years, unlike many superannuation funds.

Establishment and ongoing administration costs: There are no establishment costs in setting up a LifeBuilder, unlike a will and testamentary trust. Ongoing administration costs are built into the investment bond's fees with no additional costs incurred by the investor, beneficiaries or recipient for reporting or tax management.

Financial impact on beneficiaries: Benefits paid to a nominated beneficiary are considered a tax-free receipt by the receiving party and therefore are not subject to income or capital gains tax. This is irrespective of whether the investment bond has been held for less than 10 years or not.

Financial impact on future transfer recipients: The future transfer of ownership on death does not generally trigger a tax event for either the investor or future intended recipient. The recipient becomes the owner of the investment bond, with the added benefit of not resetting the investment bond's 10-year tax period.

CASE STUDY

Intergenerational wealth transfer to grandchildren

$200,000 to be distributed equally between four grandchildren on their 21st birthdays

Looking for peace of mind over intergenerational wealth transfer

ChildBuilder

Four ChildBuilder investment bonds established, each for $50,000

Vesting ages set at 21 years

Automatic, tax-free transfers on vesting date

Scenario

Gloria, a widow in her mid-70s, wants to leave $50,000 to each of her four grandchildren on their 21st birthday to be used as a deposit for their first home (outside her will/estate).

Objective

Gloria wants to ensure that the investment is not accessible by her estranged son (the father of the four grandchildren).

Solution

- Gloria sets up a $50,000 ChildBuilder investment bond for each of her four grandchildren.
- She nominates a vesting age of 21 years for each of the grandchildren.
- On the vesting date, ownership of each ChildBuilder investment bond will automatically transfer to each nominated grandchild tax-free.

Benefit

By using a ChildBuilder, Gloria's intention will automatically occur on the nominated vesting age. Gloria still maintains full access and control (including changing vesting dates, making withdrawals or changing investment options) over the investment up until the vesting date.

In the event of Gloria's death before a ChildBuilder vests, Gloria's legal personal representative must hold the investment on trust for the benefit of the nominated grandchild and manage and use the investment only for the benefit of the child until the vesting age. However there are no administrative tasks or tax reporting required of the legal personal representative.

Using a ChildBuilder also avoids the need to set up a will and complex testamentary trust as well as the need to find a willing trustee for the testamentary trust. Because the ChildBuilder is legally a policy of life insurance, the grandchildren nominations are treated as a non-estate asset and are subject to special rules on how the investment can be used.

Providing for unequal transfers of wealth

CASE STUDY

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$100,000 to be transferred to one child

$300,000 to be transferred to another child

Looking for peace of mind over unequal wealth transfers

LifeBuilder

$400,000 invested into a LifeBuilder investment bond with sole life insured

EstatePlanner feature: 25% to one child and 75% to other child

Peace of mind over wealth transfer

Flexibility to change EstatePlanner arrangements at any time

Scenario

Julia is 60 years of age and is looking to provide for her family after her passing. Julia has two children, Sam and Louise, who have one and three children respectively.

Objective

Julia wants to make sure that enough funds are distributed to each of her children to help with the cost of raising the grandchildren. She wants to make sure that there is no conflict (as could be the case under a traditional will arrangement). Julia is looking at providing $100,000 to Sam's family and $300,000 to Louise's family on her passing.

Solution

- Julia sets up a LifeBuilder investment bond with an investment of $400,000 and is the sole life insured.
- She nominates under the EstatePlanner nominated beneficiary option that Sam receives 25% of the investment value and Louise receives 75% of the investment value.

Alternatively, Julia could set up two separate LifeBuilder investment bonds to the equivalent value and nominate each child as a sole nominated beneficiary to receive the proceeds of her investment on her passing.

Benefit

Using a LifeBuilder investment bond and nominating beneficiaries allows Julia to by-pass the estate and will process, ensuring that her allocation wishes are met.

If at any point in the future Julia wants to change how her investment is divided up, she can do that easily without having to incur the cost of changing her will. In addition, if at any point her personal circumstances change (e.g. divorce, marriage) then there is no need for her to re-state or update her beneficiary details. Her nominations will continue until she decides to change her nominated beneficiaries.

Alternative solution for Julia

- Julia sets up four LifeBuilder investment bonds of $100,000 each and is the sole life insured.
- Under the EstatePlanner Future Event Transfer facility, she nominates (for each LifeBuilder), a grandchild to transfer ownership of the LifeBuilder to on her death.

Benefit

The LifeBuilder Future Event Transfer facility lets Julia by-pass the estate and will process, ensuring that her wishes are met.

Her investment will also be transferred to her grandchildren tax-effectively with no tax consequences as a result of the transfer.

If at any point in the future she decides to change how her investment is transferred, she can do that easily without having to incur the cost of changing her will by removing the grandchild as the intended recipient. In addition, if at any point her personal circumstances change (e.g. through divorce or marriage) then there is no need for her to re-state or update her Future Event Transfer instructions. Her instructions will remain valid until she decides to change her instructions.

Managing blended family situations

CASE STUDY

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Child from previous marriage

Concerned will may be challenged so looking for peace of mind over transferring wealth to a child from a previous marriage

LifeBuilder

Establishes a LifeBuilder investment bond

EstatePlanner Future Event Transfer facility – investment to be transferred to child from previous marriage upon investment owner's death

EstatePlanner feature – funds restricted until child turns 21

Non-estate asset

Avoids complications of a will

Scenario

When Steve married his second wife Sarah, he was concerned with making sure his ten year old daughter Kate, from his first marriage, got a good start in life. His daughter is living with Steve's former wife, while Steve and Sarah have two young children.

Objective

The couple use mutual wills to provide for each other and for their children from both marriages. But Steve is not sure if this arrangement will reflect his concerns about providing for Kate and is concerned that his will may be challenged.

Solution

- Steve sets up a LifeBuilder investment bond.
- He nominates under the EstatePlanner Future Event Transfer facility for his investment to be transferred to Kate on his death.
- Steve instructs under the facility that Kate's access to the funds be restricted until she reaches her 21st birthday.

Benefit

Using the LifeBuilder Future Event Transfer facility ensures Kate's nomination is fulfilled privately and outside of the estate. It also avoids the complications of including Kate in a will and potentially a complex testamentary trust. The LifeBuilder is treated as a non-estate asset, placing his nomination of Kate outside of the estate processes, subject to probate requirements and the potential delays associated with probate.

Rule from the grave – setting a future date/event for the transfer of wealth

Scenario

Margo, aged 86, has a devoted grandson aged 24 who is not so good at managing his finances.

Objective

Margo would like to help her grandson financially for his future. Margo is concerned that her grandson may waste a lump sum of money. She also wants to delay his inheritance until he is older.

Solution

- Margo establishes a LifeBuilder investment bond to the value of $100,000 to help her grandson.
- She sets up a Future Event Transfer facility where her LifeBuilder investment bond ownership will transfer to her grandson when he turns 40 years of age.
- She instructs that her grandson receives a regular annual payment equal to 10% p.a. of the value of the investment at the time of transfer, until funds are depleted.

Benefit

Margo meets her goal in helping her grandson and can 'rule from the grave' to control the flow of funds.

If Margo passes away before her grandson turns 40 years of age, the LifeBuilder investment bond will be held by her estate representative until the time of transfer, but without the ability to dispose of the investment prior to the intended transfer date.

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Devoted grandson, not so good at managing his finances

Looking to delay an inheritance to grandson and set a regular income stream payment once transferred

LifeBuilder

$100,000 invested into a LifeBuilder investment bond

Future Event Transfer facility set to age 40

Regular income payment restricted to 10% p.a. of investment value on transfer until all funds depleted

CASE STUDY

Charitable bequest

CASE STUDY

$75,000 charitable bequest

$25,000 charitable bequest

Looking to confidentially and tax-effectively invest for two charities. Wants certainty and peace of mind over the transfer of funds upon death

LifeBuilder

$100,000 invested into a LifeBuilder investment bond

EstatePlanner nominated beneficiary feature to nominate the two charities to receive death benefit payments

No tax on death benefit payments

Control and access at any time up until death

No annual tax reporting required provided no withdrawals within the first 10 years

Scenario

Sarah, a wealthy widow in her 70s, wants to leave $75,000 and $25,000 to two charities. Sarah has supported these charities throughout her life and now wants to set things in place by establishing ‘earmarked’ investments that will pass to them on her death.

Objective

As a taxpayer on a high marginal tax rate, Sarah wants a tax-effective investment that, whilst it is owned and controlled by her before death, doesn’t entail any tax reporting or administration hassles. Following her death, she wants the proceeds to pass tax-effectively with certainty to her nominated charities. It is important to Sarah to do this confidentially and outside her other sizeable estate arrangements under her will.

These separate arrangements provide for her two children, one of which is estranged, and also for the three children of her late husband’s first marriage. She wants to place these charitable bequests beyond possible estate legal challenges.

Solution

- Sarah sets up a $100,000 LifeBuilder investment bond and is the sole life insured.
- She establishes her charitable bequest arrangements using the LifeBuilder’s EstatePlanner nominated beneficiary feature that gives her the ability to nominate non-individual entities such as charities to receive death benefit payments.

Benefit

Following Sarah's death, the proceeds of the LifeBuilder investment bond will be paid to Sarah's nominated charities as a tax-free amount in the proportions specified by her. Up until her death, Sarah retains full ownership and control of the LifeBuilder, just in case she has a change of mind about her charities or the amount of her intended bequests. This includes her changing nominated beneficiaries, making withdrawals for her own purposes and changing investment options.

During the LifeBuilder's ownership period, there is no annual tax reporting required provided she does not make a withdrawal within the first 10 years of her investment.

The proceeds of Sarah's nominations are treated as a non-estate asset, consistent with Sarah's desire to place her intended charitable bequests privately.

Survivorship arrangements

CASE STUDY

$500,000
non-superannuation assets

Looking to tax-effectively transfer wealth to four beneficiaries and in the event of death ensure remaining amount is re-allocated to surviving children

LifeBuilder

$500,000 invested into a LifeBuilder investment bond with sole life insured

Four beneficiaries each to receive 25%

EstatePlanner Joint Survivorship option utilised to select how his nomination will be managed in the event of the death of one or more of his nominated beneficiaries

Scenario

John has $500,000 in non-superannuation assets.

Objective

John is looking for an investment where he can distribute his investment equally between his four children (25% each) in the event of his death. John also wants to make sure that, in the event of the death of one child, his nominations are automatically re-allocated amongst the surviving nominated beneficiaries pro-rata.

Unfortunately, the following year, one of John's children (Paul) unexpectedly dies before John dies.

Solution

- John invests $500,000 in a LifeBuilder and is the sole life insured.
- He nominates his four children as beneficiaries in the event of his death, with each child allocated 25% of the tax-free death benefit proceeds in the event of his death.
- He elects to use the EstatePlanner Joint Survivorship option to nominate how his nomination will be managed in the event of the death of one or more of his nominated beneficiaries before his death.

Benefit

The benefit proceeds on Paul's death will automatically be re-distributed across the remaining nominated children based on their proportional entitlements. This means that the surviving children will each be entitled to 1/3rd of the benefit proceeds.

John's original nominations were not invalidated as a result of Paul's death and he was not required to resubmit nominations.

Down-the-line succession arrangements

Scenario

David has $750,000 in non-superannuation assets.

Objective

David is looking for an investment where he can distribute his investment equally between his four children (25% each) in the event of his death. David also wants to make sure that in the event of the death of one child, that the child's entitlement under the nomination automatically passes (down-the-line) to the child's personal legal representative rather than being re-distributed amongst the surviving children.

Unfortunately, the following year, one of David's children (Harry) unexpectedly dies before David dies.

Solution

- David invests $750,000 in a LifeBuilder and is the sole life insured.
- He nominates his four children as beneficiaries in the event of his death, with each child allocated 25% of the tax-free death benefit proceeds in the event of his death.
- David elects to use the down-the-line beneficiary nomination option to pass the death benefit onto the legal personal representative of the deceased child.

Benefit

Harry's 25% beneficiary nomination will automatically be re-assigned to his legal personal representative on his death.

David's original nominations were not invalidated as a result of Harry's death and he was not required to resubmit nominations.

$750,000
non-superannuation assets

Looking to tax-effectively transfer wealth to four beneficiaries and in the event of death ensure down-the-line succession arrangements can be met

LifeBuilder

$750,000 invested into a LifeBuilder investment bond with sole life insured

Four beneficiaries each to receive 25%

Tax-free benefits upon death

Down-the-line beneficiary nomination option elected in the event of a deceased child

CASE STUDY

Protecting against bankruptcy

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$2.5m
superannuation balance

Looking to safeguard daughter's inheritance from potential creditors

LifeBuilder

$2.5m invested into a LifeBuilder investment bond

Future Event Transfer facility to investment tax-free upon death

Upon transfer, investment will be protected from future, potential creditors

Peace of mind over legacy to daughter

Scenario

Sarah is 82 years old and has a total superannuation balance of $2.5m. She has an adult daughter, Emily, who owns a small business.

Objective

Sarah wants her estate to go to her adult daughter upon her death. Sarah is concerned that Emily's business has recently experienced financial hardship. She is looking to safeguard her daughter's inheritance from any future creditors.

Solution

- Sarah withdraws her superannuation tax-free (being over the age of 60).
- She establishes a LifeBuilder investment bond to the value of $2.5m.
- Sarah sets up a Future Event Transfer facility event where her LifeBuilder ownership will transfer tax-free to her daughter on her death.

Benefit

Sarah can automatically transfer ownership of the investment bond to her daughter tax-free upon her death.

Emily's ownership of the LifeBuilder investment bond is not affected by any future potential creditors as she did not make an investment for the purpose of avoiding creditors.

This protection from future creditors applies to the LifeBuilder itself as well as any proceeds from the LifeBuilder (e.g. withdrawal proceeds) made on or after the date of any future bankruptcy.

Sarah is comforted that her legacy to her daughter will not be jeopardised.

Prepaying for funeral expenses

Scenario

Sam is 75 years old and is looking for a way to pay for his funeral expenses. He wants to set up a prepaid funeral arrangement through a funeral director.

Objective

Sam wants to ease the financial stress of his funeral expenses on his family and ensure that he is in an optimal Social Security age pension position.

Solution

- Sam establishes a Generation Life FuneralBond to the value of $15,000 (the current allowable limit as at 1 July 2023).
- He assigns the ownership of the FuneralBond to his funeral director in exchange for his selected prepaid funeral arrangement.

Benefit

Sam can establish a prepaid funeral arrangement and use the FuneralBond investment as part of the arrangement.

The funeral director will then use the proceeds of the FuneralBond on Sam's death to fund the cost of the funeral service.

Sam's FuneralBond investment and any growth in value will be exempt from the Centrelink and Department of Veterans' Affairs assets and income tests.

He will also not have to pay any tax on investment earnings.

Looking to ease financial stress of his family and set up a prepaid funeral arrangement through a funeral director. Also seeking optimal Social Security age pension position

FuneralBond

$15,000 invested into a FuneralBond

Exempt from Centrelink and Department of Veterans' Affairs assets and income tests up to $15,000 (current allowable contribution limit as at 1 July 2023)

FuneralBond ownership assigned to his funeral director

No personal tax paid by owner on investment earnings

Superannuation death benefit tax arrangements

CASE STUDY

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$1.4m superannuation balance

$650,000 taxable component

Concerned about superannuation death benefit payment penalties for two adult children

LifeBuilder

Two LifeBuilder investment bonds established, each for $700,000

Future Event Transfer facility to two sons upon death of life insured

Tax-free benefits upon death

Value of benefit payments maintained

Option to nominate withdrawal restrictions upon death

Scenario

Jane, an 81 year old widow, has two adult children – John 56 and Steve 53.

She has inherited her late husband's superannuation account and recontributed it into her own superannuation account with a total superannuation balance of $1.4m, which includes a taxable component of $650,000.

Objective

Jane is concerned that her adult children are non-tax dependants and that the taxable component of any lump-sum superannuation death benefit paid to her adult children will be subject to a tax rate of 15% plus the Medicare levy of 2%. She currently estimates this would reduce the benefit amount received by her sons by $110,500.

Strategy

- Jane withdraws her superannuation balance of $1.4m tax-free (being over the age of 60).
- She establishes two LifeBuilder investment bonds of $700,000 each.
- She sets up a Future Event Transfer facility event for each of the LifeBuilder investment bonds and nominates for ownership of the investments to transfer to each of her two sons on her death.

Benefit

Jane can transfer ownership of the LifeBuilder investment bonds to her non-tax dependant sons, John and Steve, tax-free on her death. Her investments will be transferred to her sons tax-effectively, with no tax consequences for her estate or her sons.

Jane avoids reducing the value of the benefit payment to her sons that would have occurred had the benefit been paid on her death from her superannuation account.

Using the LifeBuilder Future Event Transfer facility and nominating her sons as the intended recipients also avoids the complications associated with a will. The LifeBuilder investment bonds are treated as 'non-estate' assets where an intended recipient is nominated in the event of death, allowing her to place her nominations privately. As a non-estate asset, her investment sits outside of the estate processes and is not subject to probate requirements and the potential delays associated with probate.

Jane now also has the option of restricting how much her sons can access from the LifeBuilder following her death including setting a fixed regular income payment to them.

03.

Wealth accumulation and tax management

Investment bonds can be used by investors for a range of strategies that can help at every stage in life. Due to their tax-effectiveness, investment bonds are especially attractive for those wanting to reduce or defer their taxable income.

Investment bonds have a number of tax planning advantages over other investment products, including being tax-effective.

Tax-effective: Earnings are taxed at a maximum rate of 30% and the tax rate within the investment bond may be reduced further as a result of franking credits and other tax deductions from underlying investments.

No personal capital gains tax: when making a withdrawal or switching between investment options.

No impact on tax returns: There's no need to include any information in tax returns if a withdrawal is not made within the first 10 years of the investment.

Withdrawals: If a withdrawal is made after the 10th investment year, there is no further personal tax liability on income or gains.

Investment bonds can assist with wealth creation while also providing the flexibility to help manage an investor's tax planning. As a tax paid vehicle, an investment bond can help manage tax assessable levels year on year, as well as defer personal tax liabilities on earnings generated, to future years.

How a Generation Life investment bond can help

Higher income taxpayers

A taxpayer on a marginal tax rate above 30% may achieve an overall higher investment value by using an investment bond and holding it for at least 10 years. This can also include children under the age of 18 with unearned income that may be subject to penalty (minor) tax rates.[15]

The earnings on an investment bond are internally taxed at up to 30% within the investment bond. The earnings within the investment bond are not added to an investor's personal assessable income. This means that assessable income and taxation is managed and quarantined from the investor's assessable income while it is invested.

15 If the child were normally treated as a non-excepted minor who is in receipt of non-excepted investment income, under Division 6AA of the Income Tax Assessment Act 1936.

Lower income taxpayers

Taxpayers on lower marginal tax rates may also benefit from an investment bond by withdrawing all or part of the investment bond before 10 years. This is because, when the investment bond is cashed in, there is a 30% personal tax offset available. If the investor's marginal tax rate is less than 30%, the extra tax offset can be used to offset tax payable on other income. Therefore, if the investment bond is anticipated to be withdrawn within 10 years, holding funds in the name of an investor who is on a marginal tax rate of less than 30% (e.g. non-working spouse or partner) may be appropriate.

Taxpayers close to retirement age

Investors close to retirement can use an investment bond as an effective means of deferring assessable income to a time after retirement, when their marginal tax rate may have fallen.

Reducing taxable income

CASE STUDY

$

$150,000 to invest

Looking to invest and grow wealth tax-effectively where funds can be accessed at any time

LifeBuilder

$150,000 invested into a LifeBuilder investment bond

Invests in an Australian Share investment option

Tax-effective investment established

Flexibility and access to funds at any time

Tax arbitrage benefit and compounding effect of earnings from remaining invested

Scenario

Mary is a professional executive that currently earns $185,000 p.a. Mary has built up a considerable amount of savings outside of her superannuation.

Objective

Mary has $150,000 to invest (currently held in a term deposit) and would like to invest in a portfolio of investments which provides income and some capital growth over the long term.

Mary is considering investing in a managed fund but would like to ensure that her investment returns are as tax-effective as they can be. Mary does not need access to the funds immediately, however she would like access to her funds at short notice if she did require them.

Solution

Mary invests a lump sum of $150,000 into a LifeBuilder investment bond. She selects an Australian share investment option that is expected to provide an income return of 5.4% p.a. and capital growth of 1.5% p.a. over the long term.[16]

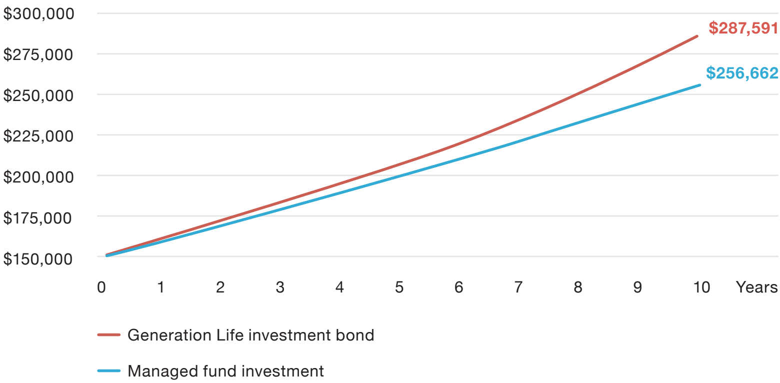
Benefit

By using a LifeBuilder investment bond, Mary now has a tax-effective investment and retains access to her funds if an unexpected event occurs. The LifeBuilder's tax rate (at a maximum of 30%) is considerably lower than her expected personal marginal tax rate of 47% (which includes the Medicare levy).

The tax arbitrage of 17% between her personal tax rate and the LifeBuilder tax rate can provide a significant benefit that compounds over time.

16 Assumes an Australian share portfolio with an average annual franking level of 85% and 28% of annual growth includes undiscounted realised gains and 28% discounted gains.

Over 10 years, Mary expects that her average annual total after-tax return on her investment would be 6.7% p.a. if invested in an investment bond compared to 5.6% p.a. if invested through a managed fund with the same investment strategy. Mary benefits from the tax arbitrage as well as the compounding effect of earnings not being used to pay for tax, and instead remaining invested.



Provided Mary's LifeBuilder investment bond remains fully invested for at least 10 years, she will not have to include any earnings from her investment in her tax return and will not have to pay any personal tax on her investment – or on any future withdrawals.
If Mary did require access to her funds within 10 years of her investment, then Mary would be required to pay tax on the earnings component at her personal marginal tax rate, however, a compensating personal tax offset equivalent to 30% of the earnings would be available to her to reduce her tax liability. After 10 years, when withdrawals are tax-free, Mary could consider (subject to appropriate advice at the time) using withdrawals to make superannuation contributions and/or to fund a transition to retirement strategy.

Higher income taxpayer

CASE STUDY

Currently generating **$125,000 p.a.** from investments

Has a lifetime annuity

Personal superannuation contributions capped out

No option for income splitting

Seeking a tax-effective investment alternative to superannuation

LifeBuilder

Savings invested into a LifeBuilder investment bond

Annual tax assessable income reduced

Earnings taxed at 30% rather than George's current marginal tax rate

Scenario

George, a widower, is 76 years of age and is currently generating $125,000 p.a. from his investments, which also includes a lifetime annuity.

Objective

George's current income requirements are less than what he is currently generating, and he would like to manage his tax position. George isn't able to use superannuation (he cannot make further personal contributions) and income splitting is not an option for him (as he does not have a spouse or partner).

Solution

George invests his savings into a LifeBuilder investment bond to assist in managing his tax position.

Benefit

By using a LifeBuilder investment bond, George reduces his annual tax assessable income as a LifeBuilder investment does not distribute earnings, with all earnings effectively retained within the LifeBuilder investment. Earnings generated in the investment bond are taxed at a rate of up to 30% instead of George's marginal tax rate (currently 39% including the Medicare levy).

CASE STUDY

Lower income tax payer

Scenario

Charlie is 45 years of age and wants to invest tax-effectively and with the flexibility to manage his tax affairs. He currently has $200,000 invested outside of superannuation and he expects to be on a marginal tax rate of 47% (including Medicare levy).

Objective

Charlie and his partner Louise are planning on starting a family soon and they expect that in the not too distant future Louise will want to take a career break to have children. Charlie expects that Louise's marginal tax rate during her career break will be 34.5% (including Medicare levy) as she has a number of other income-producing investments.

Solution

- Charlie invests $200,000 into a LifeBuilder investment bond and transfers the investment into Louise's name with no capital gains tax event triggered.
- Louise makes a full withdrawal on the accumulated value of the investment of $320,000 once her career break has started to help pay for home renovation costs.

Benefit

With Louise's marginal tax rate at 34.5% (including Medicare levy), the effective rate of personal tax paid on the investment bond's proceeds is 4.5% (after the benefit of the 30% tax offset). Based on the LifeBuilder's after tax earnings of $120,000, the amount of personal tax payable is $5,400. If Charlie had left the LifeBuilder investment in his name, the personal tax payable amount would have been $20,400.

$

$200,000 to invest

Personal marginal tax rate of **47%**

Partner's marginal tax rate of **34.5%**

Currently holds multiple income producing investments

Looking to invest tax-effectively with flexibility to manage tax affairs

LifeBuilder

$200,000 invested into a LifeBuilder investment bond

Investment transferred to partner and no tax event triggered

Personal tax payable amount reduced from $20,400 to $5,400

Accumulated value of investment when partner's career break starts is $320,000

Flexibility to withdraw at any time

Tax payer close to retirement age

CASE STUDY

$

Earning **$250,000 p.a.**

Current personal marginal tax rate of **47%**

Superannuation contributions capped out

Expected future personal marginal tax rate of **34.5%**

Generating **$75,000** from an investment each year

Seeking a tax-effective investment until retirement in 5 years' time to lower personal tax paid on investment earnings

LifeBuilder

Invests into a LifeBuilder investment bond

Held for 5 years until retirement

Personal tax rate on investment earnings reduced from 47% to 34.5%

Net after tax additional proceeds of $58,500

Scenario

Sally is 60 years of age and currently earns $250,000 p.a. putting her on the highest marginal tax rate of 47% (including Medicare levy). Sally is planning to retire at age 65 years, at which time she expects her personal marginal tax rate to fall to 34.5% (including Medicare levy). She currently holds an investment that generates $75,000 of assessable income each year. Sally is not able to make any further contributions into her superannuation.

Objective

Sally wishes to manage her tax until she retires in five years' time.

Solution

- Sally invests into a LifeBuilder investment bond (which will also generate $75,000 of earnings each year) and will hold the investment until she retires in five years' time.
- As a result, she does not pay any personal tax through the investment term at her marginal tax rate of 47% (which would have equated to $176,250 over five years).
- Instead, the LifeBuilder investment bond pays tax at a rate of 30% (equal to $112,500 over the five years).

CASE STUDY

On retirement, Sally withdraws her entire LifeBuilder investment and pays tax on the earnings (after her 30% tax offset entitlement) of $16,875. The total tax incurred on the investment through the LifeBuilder investment bond is $129,375 compared to $176,250 had she maintained her existing investment arrangements. The net after tax additional proceeds by investing in a LifeBuilder investment bond are expected to be $46,875 over the life of the investment.

Benefit

Unlike shares, managed funds and term deposits, a LifeBuilder investment bond does not distribute earnings, with all earnings effectively retained within the LifeBuilder investment. There is therefore no assessable income for Sally to declare in her annual tax returns.

Sally has effectively deferred the payment of personal tax until her retirement, at which time she will be on a lower personal marginal tax rate. By deferring her personal tax payment, she has been able to reduce the total tax payable over the term of the investment.

Using a LifeBuilder also has the added benefit of not requiring taxation reporting and management during the five-year period. Sally can also switch between investment options within the LifeBuilder investment bond without incurring any personal capital gains tax liability.

04.

Trusts / reducing distributable income

Discretionary or family trusts may be used for a variety of reasons to help with the management and distribution of wealth to beneficiaries. The objectives of a discretionary family trust are generally to protect assets, maintain control and minimise tax.

Trusts generally distribute any assessable income and gains each year to beneficiaries. If the trust does not distribute, then the trust itself will generally be liable to pay tax on its earnings (normally at the highest marginal tax rate).

Once a trust distributes to beneficiaries, the beneficiaries are responsible for any tax liability associated with the distribution. While trusts do assist in effectively managing access to and the distribution of wealth, there will be times where the trust structure may not be as tax-efficient as it could be.

At some point, the use of a discretionary or family trust may not be effective where the trust's beneficiaries' personal, taxable income levels are at higher marginal tax rates. The use of child beneficiaries (such as grandchildren) may also not be effective given the maximum marginal tax rate of 66% above the maximum tax-free threshold for minors.

Where a testamentary trust has been established under a will for estate planning, the practicalities of managing the trust on an ongoing basis may also prove expensive or burdensome for appointed trustees.

How a Generation Life investment bond can help

Investment bond earnings are internally taxed within the vehicle at a rate of up to 30%. The actual effective rate may be lower due to franking credits, deductions and other tax credits generated by the underlying investments.

Having a trust purchase an investment bond can help in reducing a trust's distributable income and the issues associated with that. For example, when a child beneficiary becomes an adult and begins earning their own income, trust distributions may result in a higher tax bracket applying to the previous child beneficiary.

A discretionary or family trust can reduce its distributable income if invested in an investment bond. Unlike other investments such as shares, managed funds and term deposits, investment bonds do not distribute 'taxable income' to investors unless a withdrawal is made within the first 10 years.

Whilst the trust remains invested in the investment bond, there is no annual income (from the investment bond) for the trust to distribute. On the death of the nominated life insured, under the terms of the investment bond, the proceeds will be paid to the trust tax-free, which can then be paid by the trust to the trust's beneficiaries tax-free (or alternatively the proceeds may be retained by the trust as there is no assessable income generated on death benefit proceeds).

Setting up an investment bond within a testamentary trust can also help in transitioning the trust's assets tax-effectively to beneficiaries, which provides asset protection benefits.

Reducing taxable income

The following table demonstrates how using an investment bond can reduce the level of tax payable. In this example, it is assumed that $3m is invested by a trust into an income producing investment earning 3% each year with three trust beneficiaries receiving income proceeds equally.

Investing directly	Beneficiary 1	Beneficiary 2	Beneficiary 3
Other income	$55,000	$100,000	$190,000
Trust distribution	$30,000	$30,000	$30,000
Total assessable income	$85,000	$130,000	$220,000
Marginal tax rate (including Medicare levy)	34.50%	39.00%	47.00%
Tax payable	$29,325	$50,700	$103,400
		Total tax in year 1	$183,425

By having the trust invest in an investment bond and earning 3% after fees and before tax, the beneficiaries will have in total saved $9,150 in the first year which could compound year on year.

Investing in an investment bond	Beneficiary 1	Beneficiary 2	Beneficiary 3	LifeBuilder
Other income	$55,000	$100,000	$190,000	$90,000
Trust distribution	$0	$0	$0	$0
Total assessable income	$55,000	$100,000	$190,000	$90,000
Marginal tax rate (including Medicare levy)	34.50%	39.00%	47.00%	30.00%
Tax payable	$18,975	$39,000	$89,300	$27,000
			Total tax in year 1	$174,275

Reducing the administration of testamentary trusts

CASE STUDY

$3m
testamentary trust

Seeking an effective way to transition a testamentary trust's assets to beneficiaries once they reach adult age

LifeBuilder

Five LifeBuilder investment bonds established for grandchildren

Future dated automatic transfer using LifeBuilder's Future Event Transfer facility

transfer set to nominated child at age 18 years

Set regular income stream equal to 5% p.a. of the value of investment on transfer

Successful wind up of the testamentary trust

Scenario

Melissa is the trustee of a testamentary trust established under the will of her late father. Her father left $3m for the benefit of his five grandchildren which the testamentary trust has invested in a portfolio of income producing managed funds.

Objective

Melissa is wanting to wind up the testamentary trust in the near future as the children are now nearing 18 years of age.

Strategy

- Melissa establishes five LifeBuilder investment bonds on behalf of the testamentary trust.
- For each of the LifeBuilder investment bonds, Melissa nominates to transfer ownership of the investment to a nominated child using the LifeBuilder Future Event Transfer facility.
- Melissa nominates each child's 18th birthday as the date of transfer.
  In each case she has set a regular income stream payment of 5% of the investment value at the time of transfer.

Benefit

By investing in a LifeBuilder investment bond and establishing a future dated automatic transfer, Melissa is able to effectively transition the testamentary assets to the beneficiaries once they reach adult age.

By setting up regular income streams, Melissa can ensure that her father's wishes are maintained to ensure that the grandchildren do not have access to a lump sum amount which could potentially be squandered.

Transferring the assets will enable Melissa to initiate the wind up of the testamentary trust arrangements and the associated paperwork required to maintain the trust.

A LifeBuilder investment bond can also provide asset protection benefits with the investment and proceeds from the investment protected from any beneficiary creditors.

Managing trust distributable income levels

CASE STUDY

$

Recent investment property sale proceeds held within family trust

Children's marginal tax rates are now **47%**

Looking to qualify for the Commonwealth Senior's Health Care Card and overcome the family trust's deprivation rules

LifeBuilder

LifeBuilder investment bond established for each child

LifeBuilder investments are now assets of the trust

No need for assessable income to be distributed to the beneficiaries

Tax-free transfers to beneficiaries at any time

No personal tax liability for children

Scenario

Mel and Tony are looking to retire and have recently sold an investment property that was held within their family trust. The sale proceeds are currently held in a bank account owned by the trust. The family trust was established at a time when the children were also on relatively lower marginal tax rates.

Since the trust was established, the children's assessable incomes have increased to a point where their marginal tax rate is now at 47%.[17]

Objective

Both Mel and Tony would like to qualify for the Commonwealth Seniors Health Card which is income tested, but are also aware of deprivation rules which limit the trust's ability to distribute to the children (who are also trust beneficiaries).

Strategy

- Mel and Tony invest the proceeds of the property sale into multiple LifeBuilder investment bonds.
- The LifeBuilder investment bonds will be assets of the trust.
- Tony nominates himself as the sole life insured under the terms of each LifeBuilder investment bond.

Benefit

Unlike shares, managed funds and term deposits, the LifeBuilder investment bonds do not distribute earnings, with all earnings effectively retained within the LifeBuilder investment. There is therefore no assessable income for the trust to distribute to any of the beneficiaries (including Mel and Tony).

17 Includes Medicare Levy of 2%. Current for the 2023-24 tax year.

The reduced level of distributable income from the trust may also help with beneficiaries:

- not moving into a higher tax bracket
- meeting thresholds for government benefits that apply an adjustable taxable income test such as:
  - Commonwealth Seniors Health Card
  - Family assistance payments
  - Child support
  - Carer Allowance and Carer Allowance Health Care Card
  - Low Income Supplement and Low Income Family Supplement
  - Medicare levy surcharge thresholds
  - Private health insurance rebate
  - Higher Education Loan Program (HELP) repayments; and
  - Dependant (invalid and carer) tax offset.

The trust has the flexibility to transfer the LifeBuilder investment bonds to the individual beneficiaries tax-free at any time.

When Tony passes away, the LifeBuilder investment bond benefits will mature and the LifeBuilder death benefit proceeds will be distributed by the trust to the beneficiaries without any personal tax liability.

Using a LifeBuilder investment bond also has the added benefit of not requiring taxation reporting and management for individual investments.

05.

Meeting the rising costs of future generations

There are many ways to help secure a child's financial future, whether it be by helping to fund a child's home deposit, saving for school fees or helping reduce student loans and debts.

The cost of raising children has increased significantly over recent years. An average high-income family will spend almost $1.1m to raise two children from birth until they finish their education.[18] The largest single contributor to these costs is the cost of education, accounting for around 21% of the total cost of raising a child.

Education funding

Both primary and secondary education costs have increased significantly, with preschool and primary education almost doubling in cost, and secondary education more than doubling in cost.[19]

Providing a financial head start

Many life-event objectives can be funded through specific transfers of wealth and structured to be available to a child at a certain age, or perhaps to create an inheritance.

How a Generation Life ChildBuilder can help

ChildBuilder is a long-term investment solution designed to tax-effectively save for and provide for a child's future. ChildBuilder can provide a parent or grandparent with a way to tax-effectively create wealth, with the objective of providing a child a head start in life. For example, to fund education expenses, a first home deposit or a car.

Importantly, the investment owner maintains full control and access to the investment until the ChildBuilder transfers to the child at a nominated future date.

18 AMP.NATSEM Income and Wealth Report, Cost of Kids: The cost of raising children in Australia, May 2013.

19 AMP.NATSEM Income and Wealth Report, Cost of Kids: The cost of raising children in Australia, May 2013. (Period from 2002 - 2012)

Education funding: ChildBuilder is an ideal way to build dedicated savings to fund primary and secondary school fees. With ChildBuilder's Savings Plan feature an investor can build the investment to a certain level, from which point they begin drawing-down to finance the nominated child's education costs.

Importantly, parents (or grandparents) are able to retain control of the investment in case any unforeseen circumstances arise, or if they change their mind and want to use the investment for non-education purposes. The balance of what remains after paying school fees or funding other expenses is left to vest (transfer) tax-free in favour of the nominated child at a nominated vesting date (up to age 25 years).

Providing a financial head start: ChildBuilder can also be established by parents, grandparents or other persons with the objective of long-term accumulation. ChildBuilder can be used to tax-effectively save and accumulate wealth which can then be transferred to a child tax-free at a pre-determined age (between ages 10 and 25 years). ChildBuilder has the optional feature of being able to nominate non-binding specific uses for the vested funds (e.g. first home deposit, first car, or the repayment of a student loan).

Ease of use: ChildBuilder is easy to understand and there is no complex paperwork required. There is also no need to include any earnings in tax returns while invested, unless a withdrawal is made within 10 years of investment. The automatic transfer of ownership also removes the worry of an investment getting caught up as part of the investor's estate as well as the time and costs associated with managing estate and estate related tax matters.

Tax on minors: Until the ChildBuilder transfers to the child, ownership remains with investors. This avoids the punitive tax rates on investments held by minors during this period.

Education funding

CASE STUDY

Husband and wife on highest marginal tax rate of **47%**

Seeking a tax-effective investment for their son's private school fees

ChildBuilder

$50,000 invested into a ChildBuilder investment bond

$10,000 p.a. regular savings plan established for the first five years

Automatic transfer of investment on son's 25th birthday

Ability to leverage the benefit of compounding returns

30% tax offset available on withdrawals in years 6-10

Scenario

Mary and John intend to send their newborn son Max to a private school (both primary and secondary) and hopefully then on to university.

Objective

Both Mary and John are on the highest personal marginal tax rate of 45% plus 2% Medicare levy, and are looking for a tax-effective way of funding Max's education.

With the rising cost of school fees, Mary and John realise that they need to start planning for school fees sooner rather than later.

Solution

Mary and John set up a ChildBuilder investment bond with an initial investment of $50,000 and an annual regular savings plan amount of $10,000 p.a. for the first five years (before Max starts school). Mary and John have nominated Max's 25th birthday for the ChildBuilder investment bond to automatically transfer to Max. The balance of any funds remaining after the payment of school costs will remain in the ChildBuilder investment bond to be used for any other purpose.

Benefit

By using a ChildBuilder investment bond, Mary and John can save for Max's education in a tax-effective manner.

By starting early and utilising a regular savings plan, Mary and John leverage the benefits of compounding returns to help fund Max's education. Earnings withdrawn in years 6 to 10 will be tax assessable jointly in their hands, however, both Mary and John will benefit from a 30% tax offset available to reduce any tax liability.

If Max decides not to go on to study at university, then the funds can be used for other purposes as they are not specifically required to be used to fund education. Mary and John also have the flexibility to use the funds for any purposes if their circumstances change until the investment vests to Max on his 25th birthday.

CASE STUDY

Providing a financial head start

Seeking a tax-effective investment for a godchild, where no personal tax income liabilities are incurred

ChildBuilder

$10,000 invested into a ChildBuilder investment bond

$1,000 p.a. regular savings plan established

Automatic transfer of investment to godchild at age 21

Investment expected to reach $80,000 by Stephanie's 21st birthday

Scenario

Steve, an airline pilot with no spouse or children, is the proud godparent of best mate James' first born, Stephanie, who is aged 3.

Objective

Steve wants to set up an investment for Stephanie to give her a financial head start in life.

Steve wants an investment where he doesn't incur a personal income tax liability, doesn't need to worry about tax administration, and where the investment will automatically transfer to Stephanie for use when she turns 21.

Solution

Steve sets up a ChildBuilder investment bond with an initial investment of $10,000 and an annual regular savings plan amount of $1,000. Given the investment horizon, Steve invests in growth investment options and he expects the value of his investment (after tax) to be $80,000 on Stephanie's 21st birthday.

Benefit

By using a ChildBuilder investment bond, Steve's intentions to transfer the investment to Stephanie will automatically occur on the nominated transfer (vesting) age. Steve still maintains full access and control (including changing vesting dates, making withdrawals or changing investment options) over the investment up until the transfer date.

There is no additional paperwork for Steve to maintain, with the transfer occurring automatically on the nominated date. Any earnings generated also do not count as part of any income earned by Stephanie and therefore the higher minor tax rates would not apply.

Steve will also not incur any personal income tax liability on the earnings provided there are no withdrawals for at least 10 years. There will also be no capital gains tax payable when the transfer to Stephanie happens.

On her 21st birthday, Stephanie is able to access her investment bond as a tax-free lump sum withdrawal which she can use as a deposit for her apartment or to pay off some of her student debt. Alternatively, Stephanie can continue to hold the investment as her own investment free of any future personal income tax liability.

CASE STUDY

Setting up an inheritance

$75,000 to be left equally to three grandchildren

Grandma seeking a confidential investment option to automatically transfer an inheritance to her three grandchildren at a specific age

ChildBuilder

Three ChildBuilder investment bonds established, each for $25,000

Automatic transfer set for age 18 years

Investment not accessible by estranged daughter

Peace of mind over inheritance wishes

Full access and control until vesting date

Scenario

Evelyn is in her mid-70s and wants to leave $25,000 to each of her three grandchildren on their 18th birthday to be used for university education expenses (outside her will and estate).

Objective

Evelyn wants to ensure that the arrangement is undertaken privately and that the investment is not accessible by her estranged daughter (the mother of the three grandchildren).

Solution

Evelyn sets up a $25,000 ChildBuilder investment bond for each of her grandchildren and nominates a vesting age of 18 years for each grandchild. On the vesting date, ownership of the investment will automatically transfer to the nominated grandchild.

Benefit

By using a ChildBuilder investment bond, Evelyn's intentions will automatically occur on the nominated vesting age. Evelyn still maintains full access and control (including changing vesting dates, making withdrawals or changing investment options) over the investment up until the vesting date.

In the event of Evelyn's death before a ChildBuilder investment bond vests, Evelyn's legal personal representative must hold the investment on trust for the benefit of the nominated grandchild and manage and use the investment only for the benefit of the child until the vesting age. It's important to note that there is no administrative burden or tax reporting required of the legal personal representative.

Using a ChildBuilder investment bond also avoids the need to set up a will and complex testamentary trust as well as the need to find a willing trustee for the testamentary trust. Since the ChildBuilder investment bond is legally a policy of life insurance, the grandchildren nominations are treated as a non-estate asset and are subject to special rules on how the investment can be used to benefit the grandchildren.

06.

Improving pension entitlements

There are a number of Government and Centrelink benefits where an income or assets threshold may apply. An investment bond offers strategies to help reduce assessable income or asset levels to maximise the investor's benefit entitlements.

The ability to qualify for Government benefit payments, such as the age pension, also provides added benefits including reductions in local council rate fees, a reduction in vehicle registration costs, and access to the pharmaceutical benefits scheme.

Income thresholds are typically based on personal assessable income levels, with some income tests also including deemed income (based on Government published deeming rates) as assessable. Asset thresholds will exclude a principal place of residence (for homeowners) but include most types of financial assets.

An investment bond can help to reduce the level of Adjustable Taxable Income (ATI) generated by an investor, as the earnings from an investment bond are excluded from ATI while funds remain fully invested. If a withdrawal occurs within the first 10 years of investment, then only the tax assessable component of the withdrawal will be included in any ATI calculation. Reducing ATI earnings may help an investor with benefits and entitlements based on ATI levels.

How a Generation Life investment bond can help

Generation Life investment bonds provide a number of benefits and features which can be used to manage income and asset levels for means testing purposes.

Age Pension income and assets test: The Age Pension is means tested based on the value of assessable assets held (excluding principal place of residence in the case of a homeowner) and assessable or deemed income of financial assets.

If an investor is seeking to increase their income-tested Age Pension entitlement, one strategy that can be followed is having a LifeBuilder investment as the sole asset of a discretionary or family trust to reduce the assessable income. Assets of a discretionary or family trust are currently assessed for income based on actual income and not deemed income (unlike financial assets), although they will still be counted for assets test purposes. Unlike shares, managed funds and term deposits, investment bonds do not distribute ‘taxable income’ to investors unless a withdrawal is made within the first 10 years.

The investor would transfer money into the discretionary or family trust, which in-turn would invest the money into an investment bond. The trust will not have any assessable income to distribute provided there are no withdrawals made within the first 10 years or if the life insured dies (assuming the investment bond is the sole investment held). Having no assessable income can assist in increasing the level of income-tested Age Pension entitlement.

How a FuneralBond can also help: If an investor is looking to set aside funds for funeral costs now, then there are opportunities to reduce the level of assets assessable under the assets test. A person can invest up to $15,000 (as at 1 July 2023) in a Generation Life FuneralBond and this amount is exempt from the assets test. Members of a couple can have their own individual FuneralBond up to the same limit each.

By contrast, if a couple invests jointly into a FuneralBond, this must not exceed $15,000, i.e. it is not double the individual limit.

Alternatively, if a FuneralBond is assigned to a funeral director as part of a prepaid, non-refundable funeral arrangement, then there is no limit to the amount that will qualify as exempt from the assets test.

Reducing deemed income for Age Pension

CASE STUDY

$500,000
in financial assets

$25,295 current pension entitlement

Looking to maximise pension entitlements

LifeBuilder

$300,000 invested into a LifeBuilder investment bond

Bonds Custodian Trust – designated private trust arrangement

Reduced the value of financial assets that are subject to the income test deeming provisions

Net pension entitlements have increased by $2,369 p.a.

Scenario

Richard is 80 years old and is a single non-homeowner. Richard has financial assets (managed funds and bank term deposits) valued at $500,000. Based on his home ownership status and level of financial assets, Richard's current pension entitlement is $25,295 p.a., compared to the full pension entitlement of $27,664 per annum.[20]

Objective

Richard would like to maximise his annual pension entitlement.

Strategy

Richard restructures his financial assets and invests $300,000 into a LifeBuilder investment bond through the Generation Life Bonds Custodian Trust designated private trust arrangement. The balance of Richard's investments ($200,000) remain under their existing arrangements.

Benefit

By investing in a LifeBuilder investment bond through the Bonds Custodian Trust arrangement, Richard has reduced the value of financial assets that would be subject to the income test deeming provisions although still subject to the assets test. As a result, Richard's net pension entitlements have increased by $2,369 per annum.

20 Based on pension entitlement rules as at 1 July 2023.

Reducing assets for Age Pension assets test

Scenario

Jill is 68 years old, is a homeowner and has recently become a widow. Jill recognises the need to plan for her funeral and has set aside funds for the cost of her funeral. Jill currently receives an age pension equivalent to $26,241 p.a.[21] She also has financial assets valued at $200,000 and $20,000 of personal assets which count for assets and income test purposes.

Objective

Jill would like to tax-effectively save for her funeral costs while at the same time improve her pension entitlements.

Solution

Jill establishes a Generation Life FuneralBond and invests $15,000 (the current maximum contribution amount to qualify as an exempt asset for assets and income test purposes).[22]

Benefit

By investing in a FuneralBond, Jill has been able to reduce the value of her financial assets by $15,000. This has resulted in an improvement in her annual pension rate by $1,170 p.a.

Investing in a FuneralBond also means that there will be no personal tax assessable amounts for her to worry about while the investment is maintained and no additional tax paperwork for her to manage.

$

$200,000
financial assets

$20,000
Personal assets

$26,241 p.a.
Age Pension

Seeking a tax-effective way to save for funeral costs and improve pension entitlements

FuneralBond

$15,000 (current Centrelink allowable limit) invested into a FuneralBond

Annual pension rate improved by $1,170 p.a.

CASE STUDY

21 Based on pension entitlement rules as at 1 July 2023.
22 As at 1 July 2023.

About Generation Life

As the pioneer of Australia's first truly flexible investment bond, we have been at the forefront of providing innovative tax-effective investment solutions since 2004. As an innovation led business, we constantly strive to enhance our products and processes to optimise after-tax investment performance for our investors.

We are a leading specialist provider of tax optimised investment and estate planning solutions – with over $2.8 billion invested with us to date.

Generation Life is a regulated life insurance company and our parent company is listed on the Australian Securities Exchange.

Highly recommended for over a decade

Zenith Investment Partners has rated us Highly Recommended since 2008.#

Our strong and trusted ability to deliver solid investment outcomes for investors has also earned us a Highly Recommended rating from Lonsec.#

Generation Life is the only provider in the market to hold a 'Highly Recommended' investment bond rating with both Lonsec and Zenith Investment Partners.

We are proud to be the winner of four Plan for Life Actuaries and Researchers investment bond excellence awards, recognising excellence in the key facets of the products. These awards are based on a holistic benchmarking review which includes financial strength, market sustainability product benefits, service to customers, and support and training of advisers.

Zenith HIGHLY RECOMMENDED

5 Highly Recommended Lonsec Research

WINNER Money MAGAZINE AWARDS 2022 INVESTMENT BOND PROVIDER OF THE YEAR

LifeBuilder

2022 Plan For Life Investment Bond Excellence Awards Overall Excellence WINNER

2022 Plan For Life Investment Bond Excellence Awards Bond - Child Policy WINNER

2022 Plan For Life Investment Bond Excellence Awards Bond - Estate Planning WINNER

2022 Plan For Life Investment Bond Excellence Awards Funeral Bond WINNER

Outthinking today.

Generation Life is a regulated life insurance company and our parent company is listed on the Australian Securities Exchange.

We focus on simplicity and value and specialise in flexible tax-effective solutions that deliver down-the-line.

Note: Zenith rating includes LifeBuilder and ChildBuilder

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