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Back to Basics Webinar

Generational Wealth

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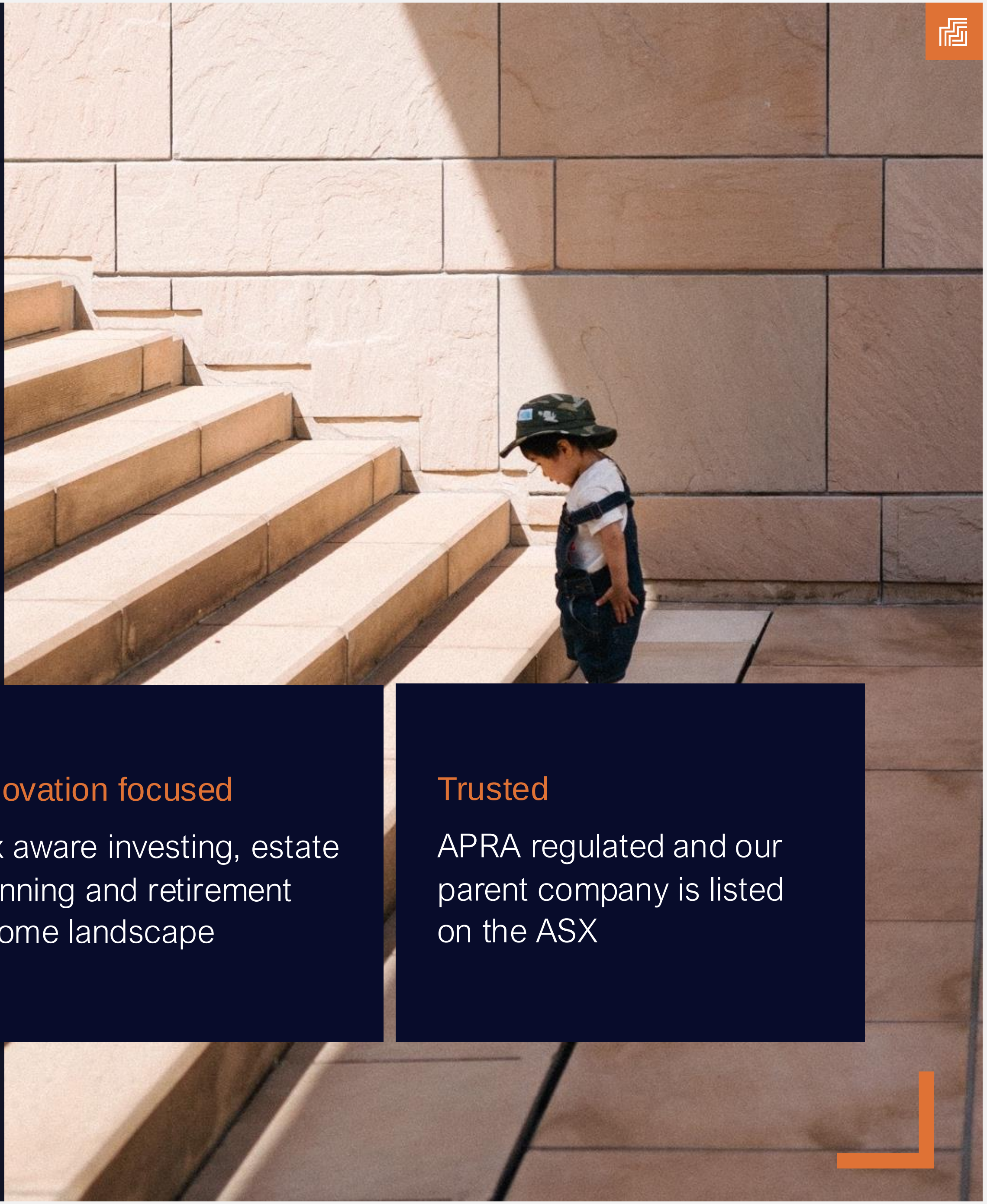
Discover Generation Life

Pioneer of Australia's first truly flexible investment bond with over $3.6b in funds under management.[1] Proud to be innovating the retirement income landscape with an investment-linked lifetime annuity.



Specialist provider

Investment bonds and investment-linked lifetime annuity

Market leader

#1 provider of investment bond solutions with 51% market share of total inflows into investment bonds[2]

Innovation focused

Tax aware investing, estate planning and retirement income landscape

Trusted

APRA regulated and our parent company is listed on the ASX

1. As at 30 September 2024
2. Plan for Life, Investment Bonds Market Report for period ended 30 June 2024

The great wealth transfer opportunity

As a nation, we are on the cusp of the largest intergenerational wealth transfer we have ever seen. Between 2021 and 2027, Australia is expected to experience the peak of the Baby Boomer retirement surge.[1]

Australians are now thinking about the footprint they'll leave on the world when they pass away, their legacy.

$4.9 trillion

Approximate amount of assets held by Baby Boomers[2]

$224 billion

Estimated to be passed on as inheritances each year by 2050[3]

Gen X

Are considered inheritance recipients from Boomer parents[4] with more than 80% of wealth passed on to those 50 or higher[5]

80%

of Australians intend to leave a legacy but only one in five have a plan to do so[6]

1. Source: Salt, B, 2021, "Turning point: the 2020s baby boom retirement surge", published in Firstlinks on 24 March 2021, accessed 4 July 2024
2. Core Data 2023
3. Vickovich, A, 2021, "Baby Boomers to pass on $224b a year by 2050", published in The Australian Financial Review on 7 December 2021, accessed 4 July 2024
4. Source: https://www.afr.com/wealth/superannuation/gen-x-prepares-for-the-next-great-wealth-transfer-20230724p5dqr0#:~:text=Watt%27s%20numbers%20show%2072.1%20per,superannuation%20all%20their%20working%20lives.
5. Based on past reviews described in Grattan analysis of probate files, Victoria, 2016. By Grattan Institute.
6. Of high-net-worth Australians as described in Generation Life Reimagining Legacy Guide 2023, accessed 4 July 2024

Considerations when transferring wealth between generations

Maintaining family unity

74% of family claims made against estates have been successful in Australia.[1]

It's important to consider complex family arrangements like blended families, unequal distributions or providing for non-family members.

Tax can impact not just one generation but future generations

Almost half (42%) of affluent Australians are worried about the impact of tax upon wealth transfers.[2]

A large portion of a superannuation death benefit is taxed at a rate of 17% (including Medicare levy) to certain non-dependant beneficiaries.

But more importantly, giving the next generation a helping hand

4 in 5 HNW parents are focused on securing a financial future for their children[3] and nearly two-thirds of Australians plan to transfer some or most of their wealth before they pass away.[4]

It's estimated that young buyers need at least 12 years to save for a deposit for the average unit and 16 years for the average house in Australia.[5]

1. (Subject to successful claims/total claims not stated): Source: UNSW Law Journal, Estate Contestation in Australia: An Empirical Study Of A Year Of Case Law, 2015, accessed 4 July 2024
2. Generation Life Estate Planning Research by Core Data 2020
3. Not tomorrow's problem research guide by Generation Life and Core Data 2024, accessed 12 October 2024
4. Funding a dignified retirement and leaving a legacy research summary by Generation Life and CoreData 2023, accessed 8 July 2024
5. Blackburn, T. (2023) A marathon to mortgage: First Home Buyers Need More than a decade to save for a home, https://www.finder.com.au/news/first-home-buyers-need-years-for-home-deposit, accessed 4 July 2024

Investment bond estate planning benefits

Life insurance contract

A type of life insurance policy which is investment-based governed by the Life Insurance Act

Non-estate asset

Investment bonds can be structured as a non-estate asset

Tax-free proceeds

Proceeds on death are paid tax-free even to non-dependants

Automatic transfer

Automatic transfer at specific ages, dates or on death can be selected

No tax reporting

No tax reporting if no withdrawal made in the first 10 years

Avoids conflict

Avoids potential for conflict and solves complex wills

Meet Selin and Jason…

Selin and Jason are both 35 years old married with two young children: Jess (8 years old) and Tim (5 years old).

Selin and Jason's situation…

Selin and Jason are both senior managers earning $170,000 p.a. They both receive 11.5% in superannuation guarantee contributions and maximises their concessional contributions through salary sacrificing to help manage bracket creep. They also make $1,000 in non-concessional contributions per month.

Selin and Jason are homeowners and regularly contribute $3,000 per month to their offset account.

They currently have combined surplus after-tax income of $3,000 per month.

Selin and Jason’s objectives…

Based on their current contribution into superannuation and a balance of $220,000, it is estimated that their super balance will be $3,192,539 each by age 67.

Ben, Selin and Jason’s financial adviser highlighted the importance of considering the impact the proposed Division 296 tax could have on their wealth transfer plans, to not make it tomorrow’s problem, and explore common ways to accumulate and transfer their wealth or assets.

Selin and Jason advise Ben that they would like to have access to their money to potentially fund their children’s future education, purchase their first home and/or fund their own early retirement.

Using Moneysmart superannuation calculator. Assumes a superannuation balance of $220,000 each for Selin and Jason. Superannuation balance is shown in today's dollar and adjusted for inflation of 3% p.a.. This also assumes a further 1.2% each year due to the cost of rising community living standards. Superannuation balance assumes an investment return before investment fees and earnings tax of 10% p.a. with an effective tax rate of 7.0% on investment earnings. Assumes Selin and Jason maximising concessional contributions and does not exceed the concessional contributions cap, and each making $500 non-concessional contribution into their superannuation. Assumes investment fee of 0.82% p.a. and admin fee of $74 p.a.

Not tomorrow's problem…

Ben highlighted to Selin and Jason the impact of the proposed Division 296 tax on their future superannuation balance…

Should they wait and hope for the indexation of the Division 296 $3 million threshold?

Should they consider continue making contributions and making a withdrawal at retirement?

Should they consider reducing their non-concessional contributions to superannuation to manage their total super balance and seek alternative tax-effective structures?

Investment tax structures

Individual	Company	Private Trusts	Superannuation	Investment Bond
Taxation: • Personal Marginal tax rate	Taxation: • 30%	Taxation: • Personal Marginal tax rate or 30%	Taxation: • Up to 30% • Accumulation 15% • Drawdown 0%	Taxation: • Max 30% • Tax Optimised generally, ranges between 10% - 15%*
Limitations: • Wills – estate asset • Available to creditors	Limitations: • Tax deferral only • Gross-up of franking • Div 7A • Annual reporting • Willing participants • Estate planning	Limitations: • Usually, must distribute earnings • Annual reporting • Willing participants • Trustee obligations • Estate planning can be complex	Limitations: • Extra proposed Div 296 tax over $3m • $1.9M TSB (2024/25) • SIS Legislation • Estate planning can be uncertain • Preservation • Annual reporting • Trustee obligations	Opportunity: • More flexible tax structure • Tax free transfers • Creditor protection • Estate planning certainty • 10-year tax-free period • Tax advantages in first 10 years • No limit on contributions

* Estimated average tax rates being the estimated average annual tax as a percentage of earnings for each 12-month period over a period of 15 years. Actual tax amounts payable are not guaranteed and may vary from year to year based on, amongst other things, the earnings of an investment option. Past performance is not a reliable indicator of future performance.

Three ways to transfer wealth…

Generation Life investment bonds provides three options to manage future wealth transfers and estate planning needs in a simple and convenient way.

1.

Future Event Transfer

Can be transferred to an intended recipient at a nominated future date or the date of death of the owner.

Option to place restrictions on access to funds by the recipient, including setting up a regular income payment.

2.

Nominating a beneficiary

Ability to nominate one or more beneficiaries with the option to manage nominations automatically should a nominated beneficiary pass away before the life insured, by using the joint survivorship or down-the-line nomination feature.

3.

Passing onto the Estate

Option to elect to pass on all or some of the death benefits to their estate or to transfer full ownership to their estate.

Ben establishes two investment bonds for Selin and Jason

Joint owners	**Selin and Jason**
Life Insured	Selin and Jason
Future Event Transferee for investment bond 1	Jess
Future Event Transferee for investment bond 2	Tim
Transfer date	35th birthday of each child
Investment option	Generation Life Tax Effective Growth Fund (70/30)
Regular Savings Plan	$3,000 p.m. for 15 years

1. Assumption: Assuming an initial investment of $1,500 for Jess over a 27-year period and $1,500 for Tim over a 30-year period with a Regular Savings Plan of $1,500 each per month for the first 15 years. Total annual after-tax investment return of 7.39% p.a. assumed. Estimated average fees and costs of 1.24% p.a. over investment term with an effective long-term average bond tax rate of 5.29%. The balance is the total balance based on Jess's closing balance in year 27 and Tim's closing balance in year 30.
2. Indicative effective average tax rates represent the estimated average annual tax as a percentage of earnings for each 12-month period over a future period of 15 years. Actual tax amounts payable are not guaranteed and may vary from year to year based on, amongst other things, the earnings of an investment option.

Past performance is not a reliable indicator of future performance.

Investment bond structure
Taxed within structure with no personal tax payable

$2,602,742[1]

Balance on Jess's and Tim's 35th birthdays

Ownership of the investment is transferred tax-free to Jess and Tim.

Generation Life Tax Effective Growth Fund long-term effective tax-rate of 5.29% p.a.[1]

Generation Life Tax Optimised investment options effective tax rates can range between 10-15%p.a. over 15 years depending on the options chosen[2]

When Selin turns 61, her mother is unfortunately diagnosed as terminally ill…

When Selin turns 61, her mother unfortunately falls ill and had nominated Selin as her superannuation beneficiary to receive $600,000 on her passing. Selin encourages her mother to speak to her financial adviser Ben.

Ben unearths that there is an 80% taxable component ($480,000) taxed at 17% (including Medicare) which would mean an $81,600 Death Benefit tax amount is payable by Selin, given she is an adult non-dependant beneficiary.

At this point, Ben recommends that Selin's mother withdraw the funds as tax-free proceeds and a gift to Selin. This avoids the Death Benefit tax when Selin's mother passes away.

It's time to think about generational wealth…

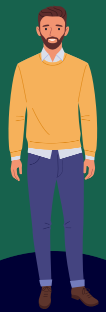
Due to Selin and Jason's Total Superannuation Balance that still applies, they are unable to contribute this inheritance into their superannuation. By this time, Selin and Jason would have also paid off their mortgage and are currently subject to the highest marginal tax rate.

Selin and Jason would like to invest this inheritance for their children Jess (now 34 years old) and Tim (now 31 years old), to financially support their children in the future.

Ben establishes 6 investment bonds for Selin and Jason

Selin and Jason establish six investment bonds at $100,000 each and earmark Tim and Jess as future event transferees for three investment bonds each.

Joint owners of the investment bonds



$100,000
Investment bond 1

$100,000
Investment bond 2

$100,000
Investment bond 3

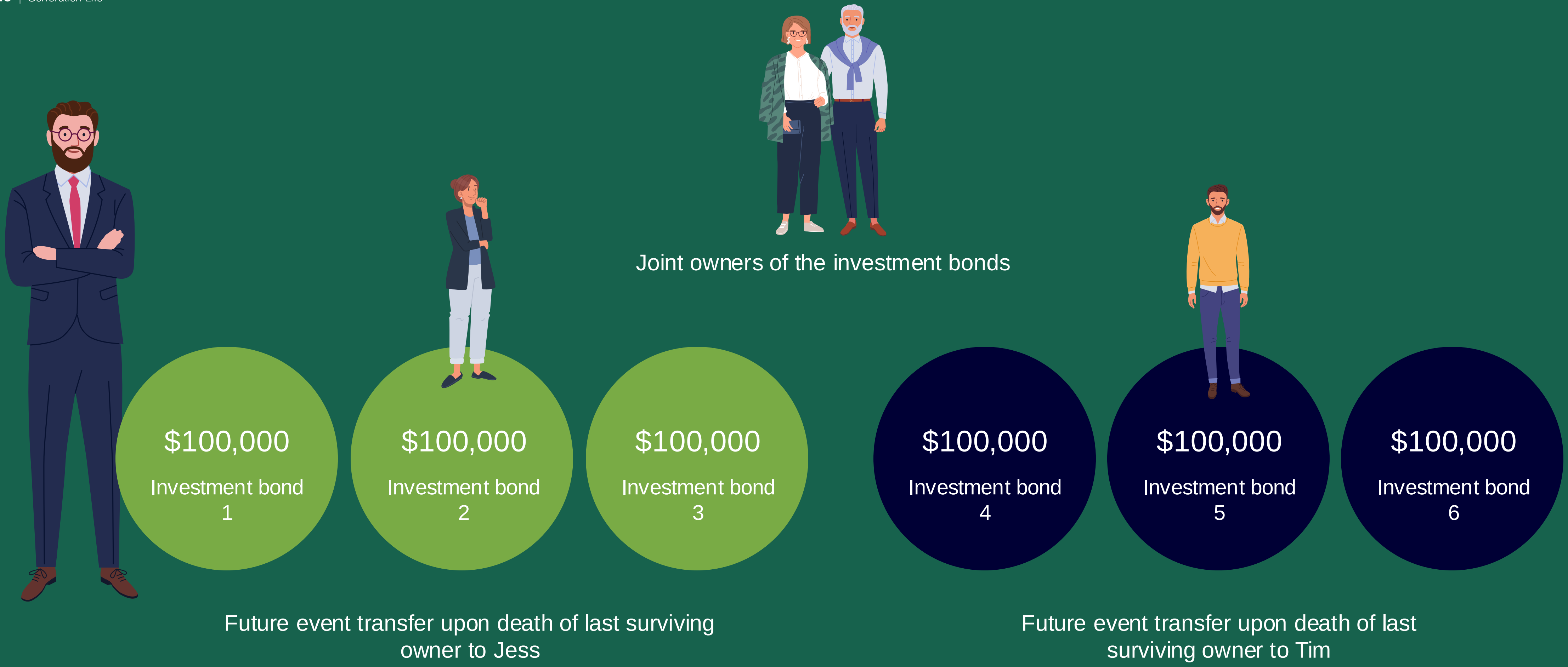
$100,000
Investment bond 4

$100,000
Investment bond 5

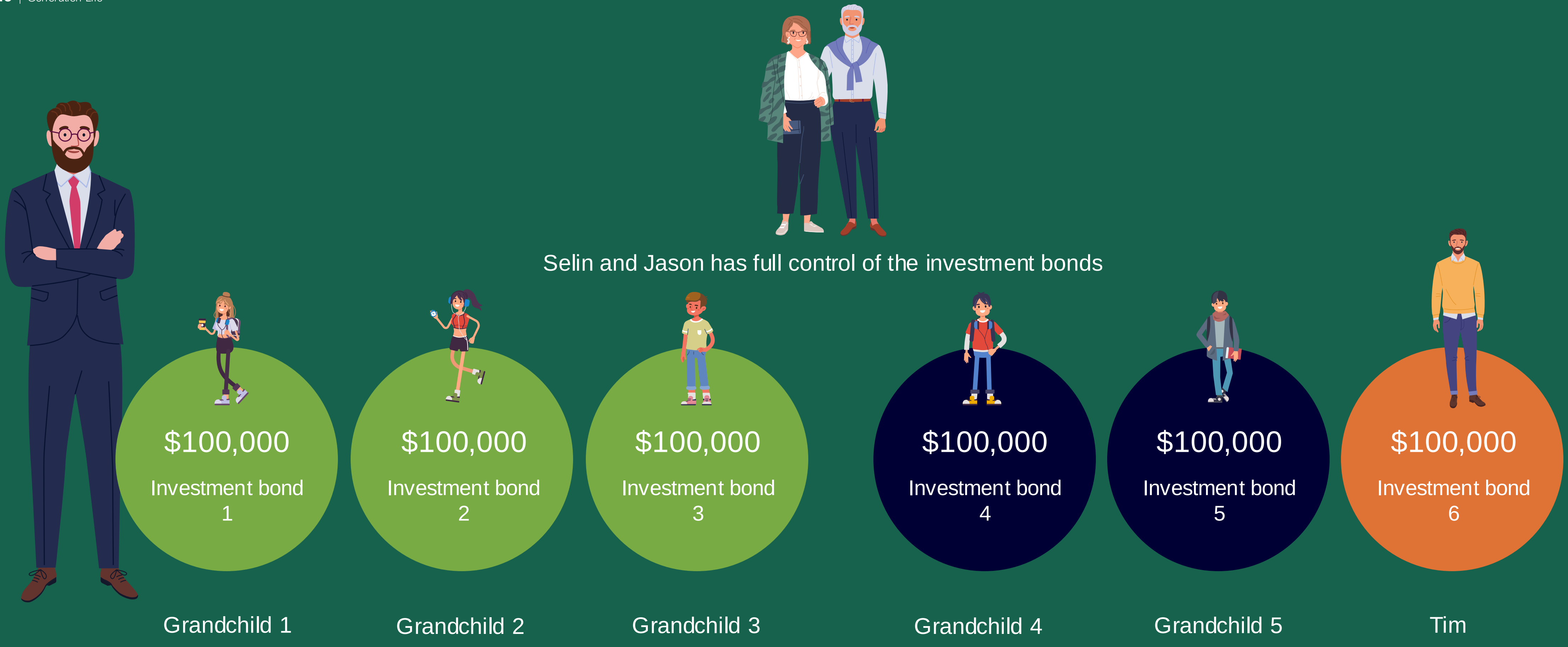
$100,000
Investment bond 6

Future event transfer upon death of last surviving owner to Jess

Future event transfer upon death of last surviving owner to Tim



The intention is to transfer ownership to Tim and Jess's future children. Selin and Jason have full control and flexibility to change the future event transferees at any time.



Jess now has 3 children and Tim has 2 children. Selin and Jason can change the future event transferee to each of the 5 grandchildren and leave the remaining investment bond to Tim to ensure estate equalisation, which will avoid any potential family conflicts in this case.

Fast forward another 10 years, one of Tim’s children has a gambling problem. Selin and Jason are worried about Tim’s child, so they place restrictions which include limiting withdrawals to a regular income payment, and nominating Tim as the co-signatory to approve any special one-off withdrawals that Tim’s child may need.

Withdrawal restrictions

Regular Income Payment and appoints Tim as Co-signatory to approve one-off withdrawals for emergencies.

Selin and Jason also introduce their financial adviser to Jess and Tim so that when they pass away, Jess and Tim understand how their estate is structured creating an ongoing opportunity for the adviser to provide intergenerational advice.

Selin and Jason have achieved Generational Wealth

$100,000
Investment bond 1
Grandchild 1

$100,000
Investment bond 2
Grandchild 2

$100,000
Investment bond 3
Grandchild 3

$100,000
Investment bond 4
Grandchild 4

$100,000
Investment bond 5
Grandchild 5

$100,000
Investment bond 6
Tim

Consider how tax can impact your clients' wealth overtime across generations

Consider the death benefit tax on large superannuation inheritances and its impact on your clients' beneficiaries

Consider how to include the next generation as part of your clients' estate planning conversations

Consider the right estate planning structures to help achieve generational wealth across multiple generations and maintain family unity

Generational wealth

Don't gain a client, but multiple generations…

9 key features of investment bonds

Life Insurance and Tax Act

1\. **Maximum tax rate of 30%** Tax Optimised generally ranges between 10% - 15%[1]

2\. **No distributions** and access to funds at anytime

3\. **Tax paid** - no personal tax after 10 years - tax advantages within 10 years

4\. **125% advantage**

5\. **Portability** and tax-free transfers

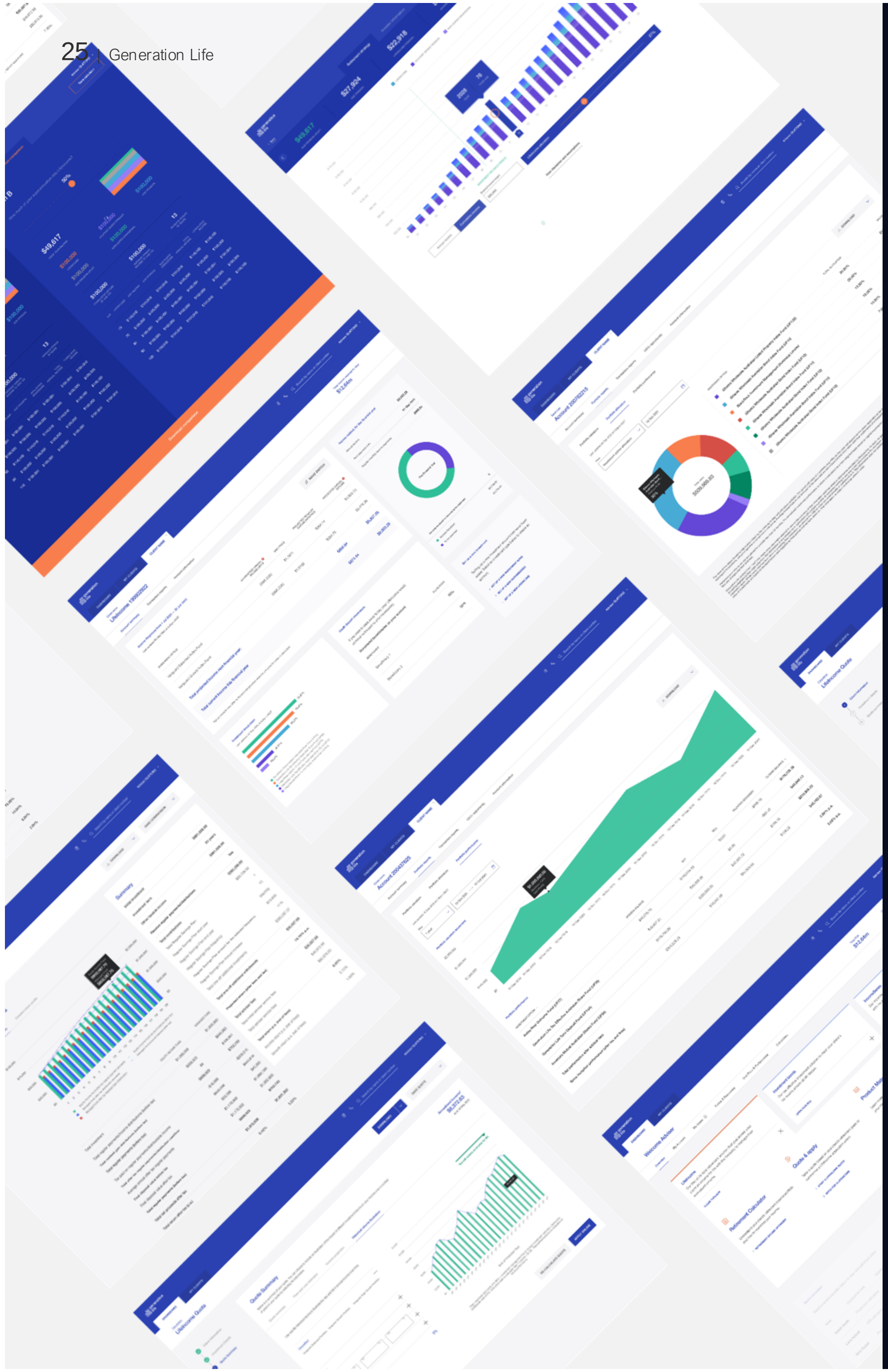
6\. **No personal capital gains tax** on investment switching

7\. **No tax file number required**

8\. **Creditor protection**

9\. Can be structured as a **non-estate asset**

1. Indicative effective average tax rates represent the estimated average annual tax as a percentage of earnings for each 12-month period over a future period of 15 years. Actual tax amounts payable are not guaranteed and may vary from year to year based on, amongst other things, the earnings of an investment option.



Tools to support financial advisers

Comprehensive calculators to run projections and develop client illustrations

Resources and materials – Estate Planning Guide, Strategy Booklet, Technical Guide, and research rating reports

Tax Aware Performance reporting

Online strategy and educational videos

Online application for a quicker and more seamless processing experience

Thank you.

Generation Life

Highly recommended for over a decade

Note: Chant West rating for LifeBuilder and ChildBuilder

Awards

Research ratings

LifeIncome

Investment Bonds