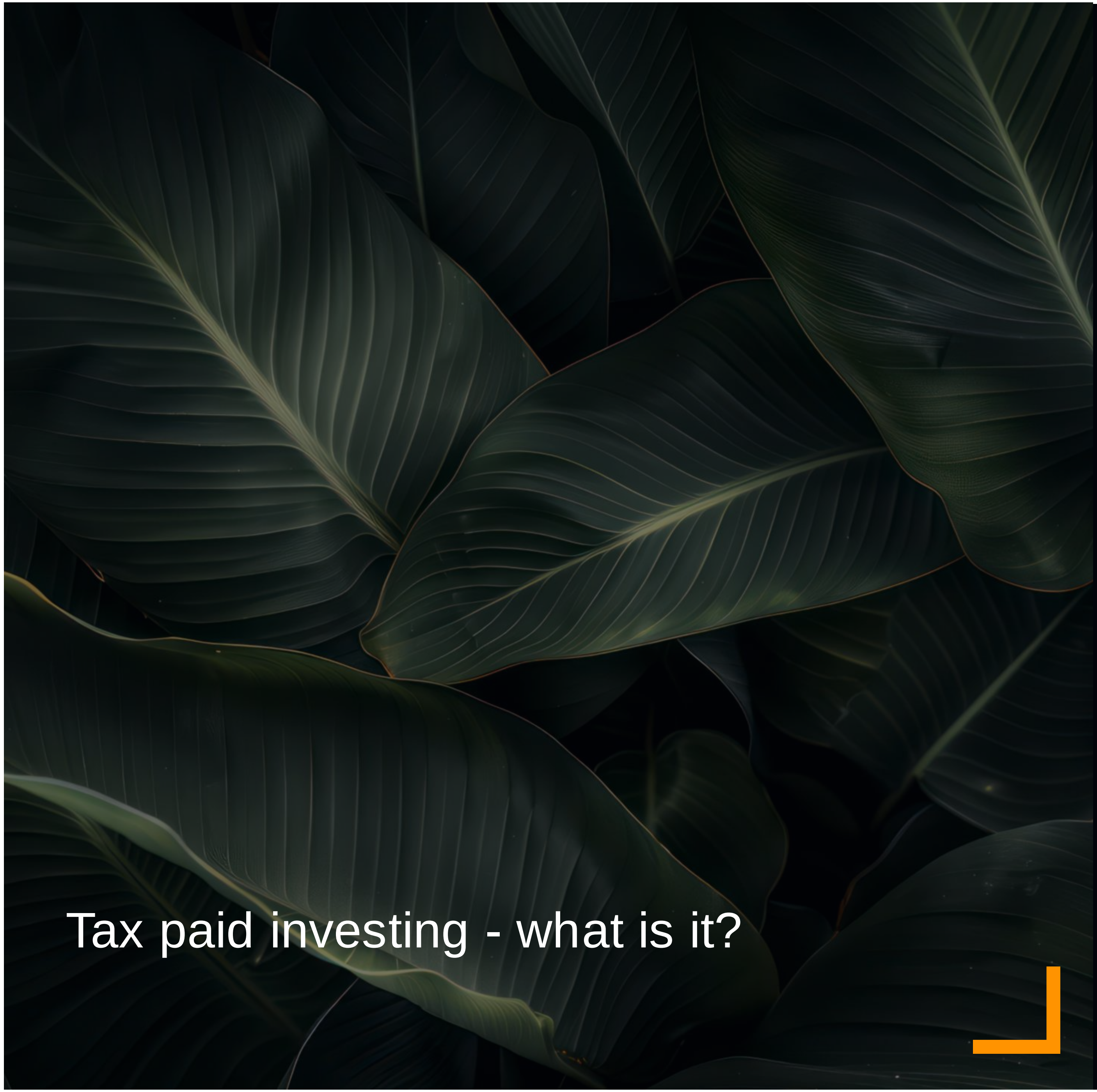
generation life

Outthinking today.



# Tax paid investing - what is it?

generation life

Outthinking today.

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# Generation Life

At Generation Life, we understand that tax awareness is critical when maximising an investment's return. But many investors are swayed by headline performance figures and overlook this fundamental component of their investment strategy.

Tax is often the biggest cost for investors, but they feel very limited by the strategies available to reduce it.

“Are you considering the impact of tax on your investment? We are and we're doing something about it.

# Challenges of managing after-tax returns

Poor knowledge of the investors' marginal tax rates

Components of returns vary for different portfolios e.g. no two 10% returns are the same

No industry comparative performance measurements on an after-tax basis

No choice on when to receive a distribution

# Headline returns are not consumable returns…

There's more to the 'story' than just the headline return. How much of your return gets taxed?


1.56%

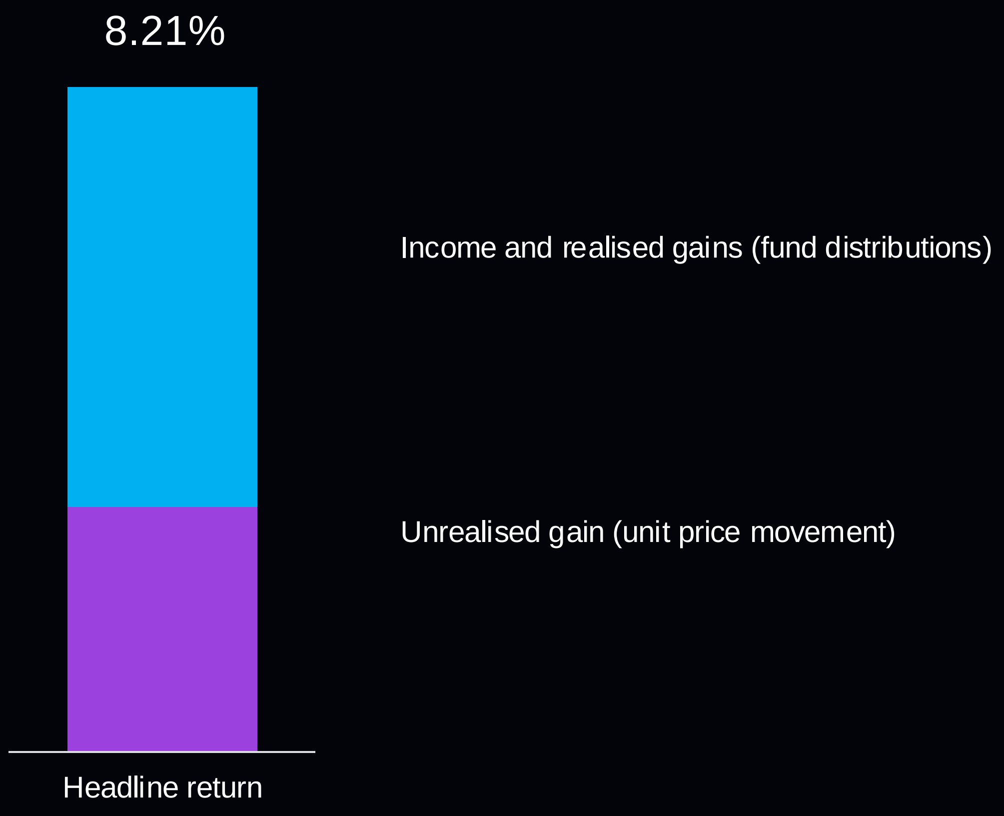
The portfolio headline return has outperformed the benchmark.

Happy days… but there's more to the story.

Headline returns and benchmark used in this illustration for example purposes only.

# Headline returns are not consumable returns…

There's more to the 'story' than just headline return. How much of your return gets taxed?

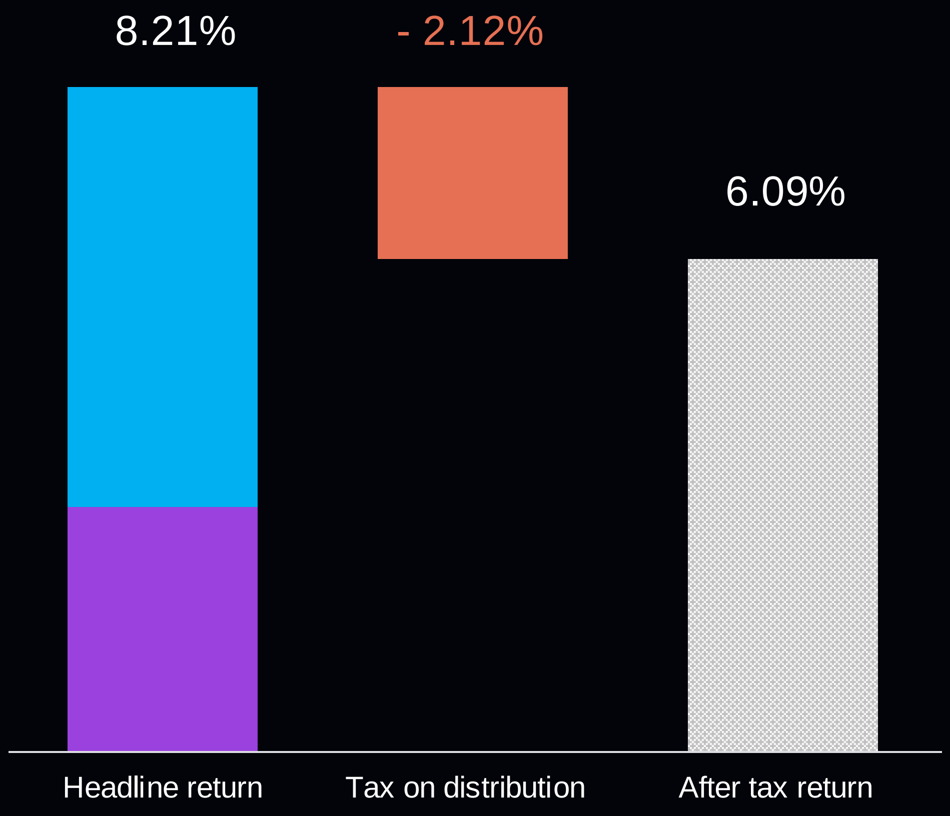



Headline returns usually have an income component and an unrealised growth component.

Headline returns illustration for example purposes only.

# Headline returns are not consumable returns…

There's more to the 'story' than just headline return. How much of an investor's return gets taxed?



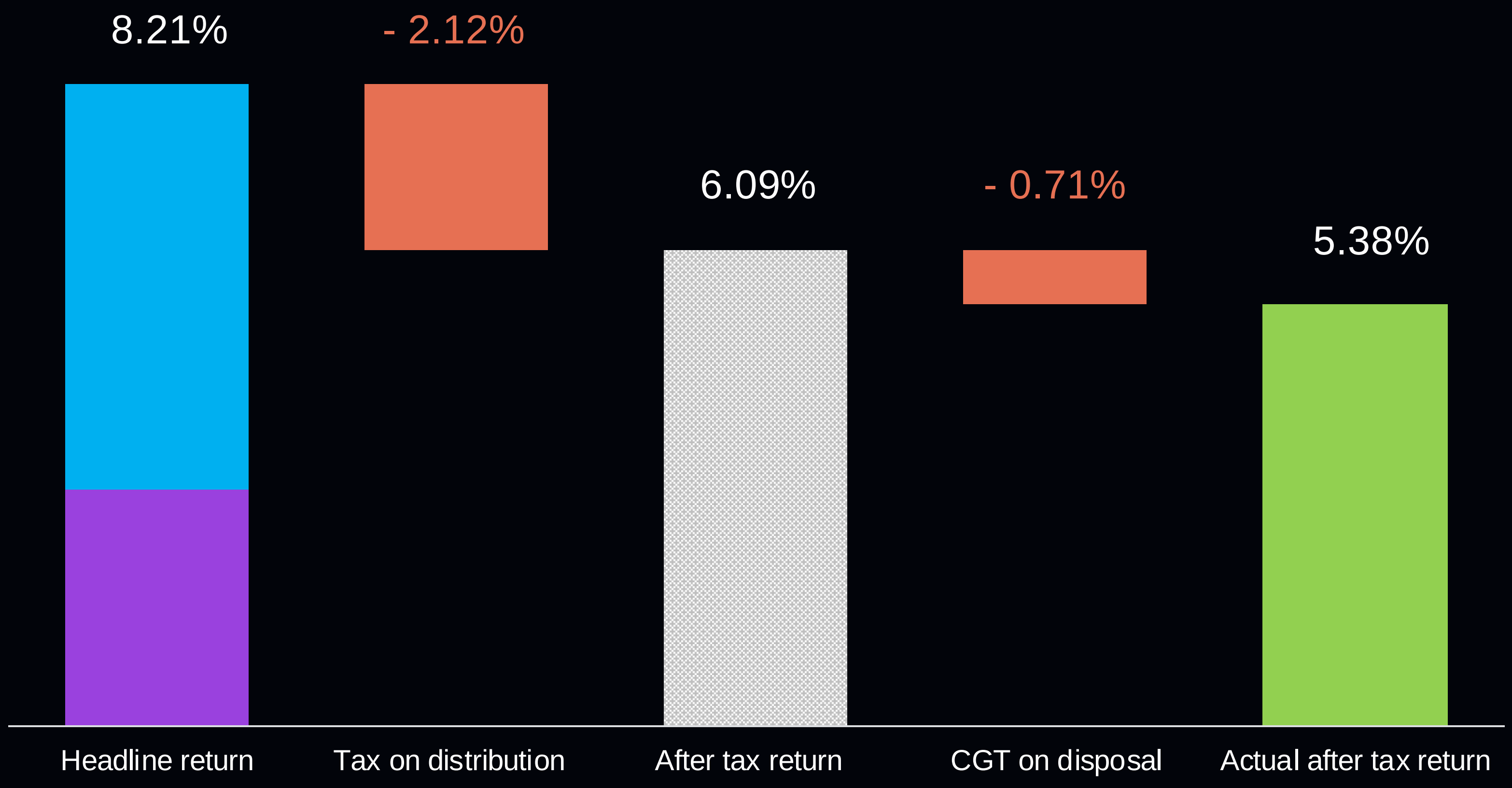

Unit trust structure passes all the taxable income they produce to investors, and investors pay tax on that assessable income based on their marginal tax rate, subject to any tax offsets and deductions.

Therefore, the investor's after-tax return is lower than the headline fund return.

Returns and taxes illustration for example purposes only.

# Headline returns are not consumable returns…

There's more to the 'story' than just headline return. How much of an investor's return gets taxed?




When thinking about your clients' actual withdrawal amount the final step is measuring what the tax impact of the disposal would be.

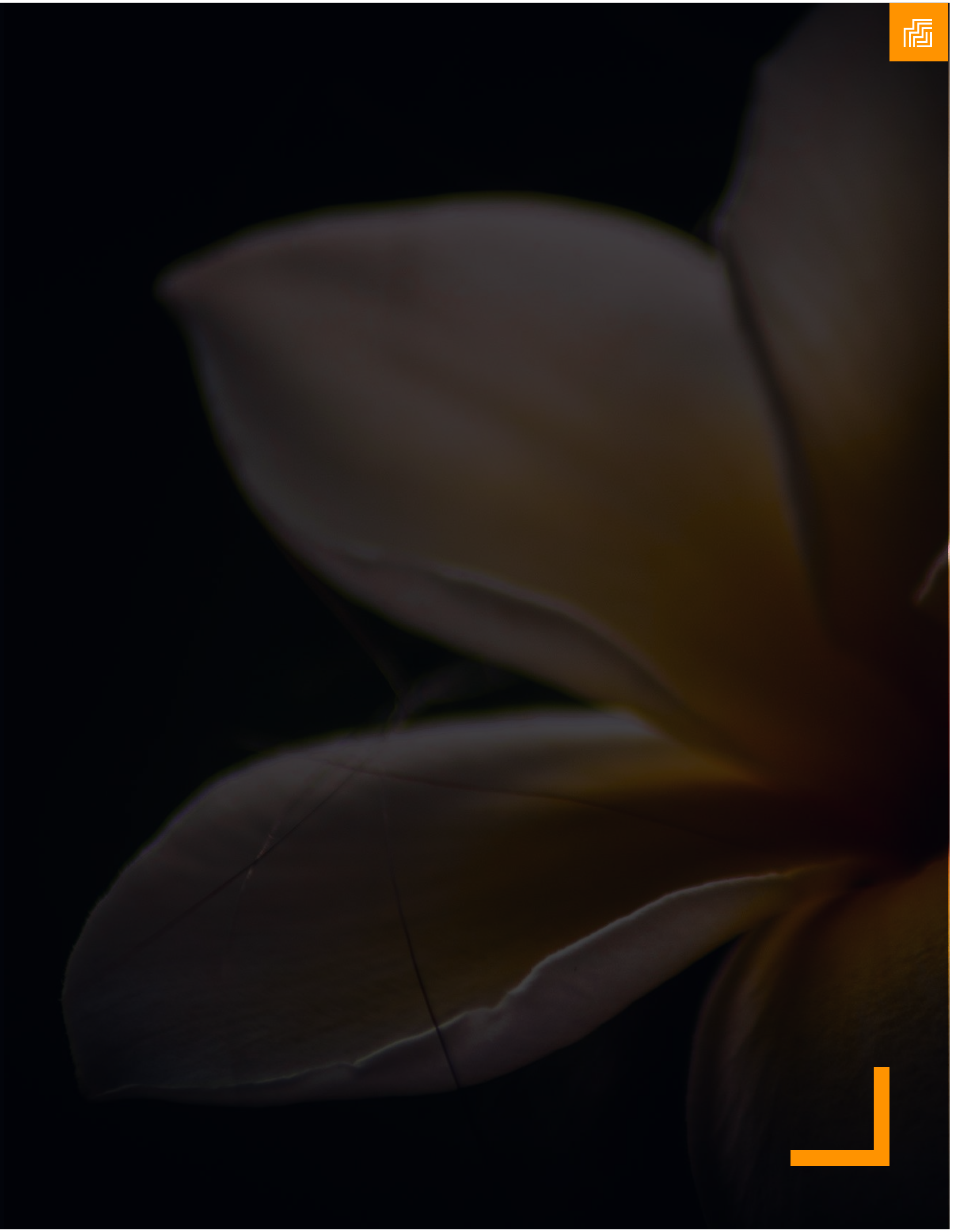
The tax on disposal means your clients' withdrawal balance is different to their balance while invested.

Returns and taxes illustration for example purposes only.

# What is tax-paid investing

Tax-paid investing is simply a strategy that allows investors to invest through a tax-effective structure where the tax on earnings is paid by the investment provider, rather than by the investor at their personal marginal tax rate.

This approach can simplify tax management for investors, as there's little to no tax reporting of the investment.



## Tax-paid investing

### Strengths

- Ability to better measure and manage the impact of tax
- More informed decisions made about investment assets held
- Portfolio managed with a focus on what the investors keeps
- Equitable tax outcome across all investors
- No unintended distributable income surprises for investors
- Can reduce the impact of investor bracket creep

### Considerations

- Effective tax rate of structure compared to personal tax circumstances
- Cost and complexity of the structure
- Usually able to access funds at any time
- Level of tax optimisation

## Non-tax paid investing

### Strengths

- More optionality and accessibility of investments
- Widely used and understood
- Ability for funds to scale across investor segments
- Good entry point for low tax paying investors
- Less additional layers in the underlying holdings
- Potentially lower cost

### Considerations

- Bracket creep - lack control of assessable income received
- Sole focus on headline returns – ignores the largest investment cost
- Buying into existing tax liabilities
- Complexity of managing tax affairs

# Ways to access Vanguard High Growth Portfolio

Vanguard®

## 1. Individual

Tax Implications:

- Assessable income taxed at the marginal tax rate.
- No CGT discount for holdings under 12 months.
- 50% CGT discount for holdings of at least 12 months.

## 2. Private Trust

Tax Implications:

- Income and realised capital gains distributed to beneficiaries taxed at their marginal tax rates.
- Beneficiaries may receive a 50% CGT discount on long-term realised gains.

## 3. Company

Tax Implications:

- Earnings taxed at a flat rate of 30%.
- No CGT discount applies.
- Shareholders may claim franking credits for dividends paid.
- Separate income and capital buckets required.

## 4. Superannuation

Tax Implications:

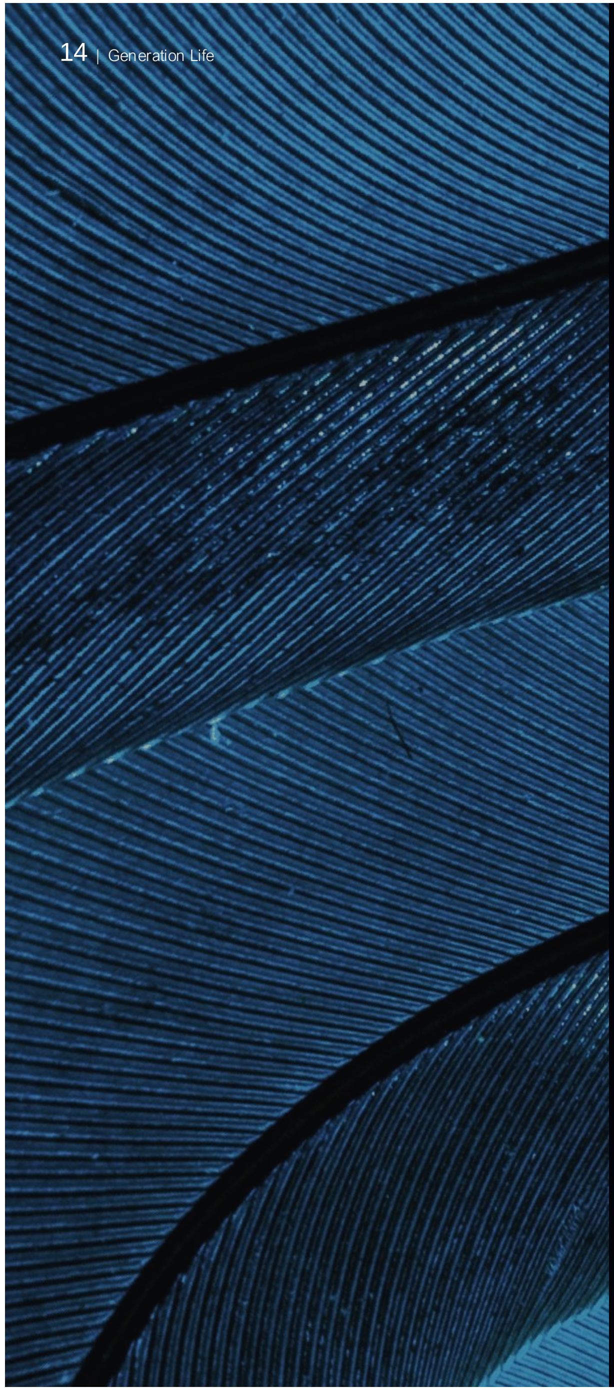
- 15% tax on earnings in the accumulation phase.
- Earnings in the pension phase are tax-free.
- One-third CGT discount applies to gains on units held for at least 12 months, reducing the effective CGT rate to 10%.

## 5. Investment bond

Tax Implications:

- Assessable income is taxed within the investment bond at a maximum rate of 30%, generally ranges between 10% - 15%[1]
- No personal tax liability on assessable income if the investment bond is held for at least 10 years.

1. 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 no indicator of future performance.



# Tax-paid structures open opportunities for optimisation...

Efficiency when allocating tax parcels

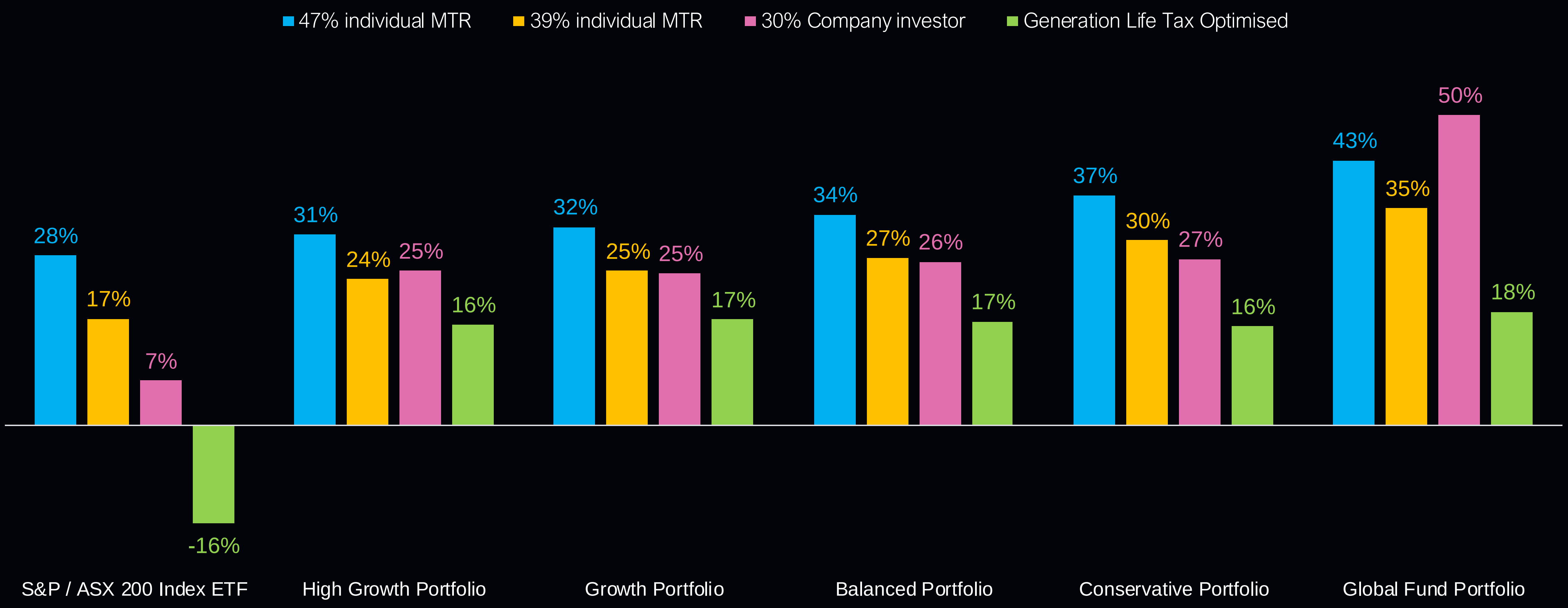
More control over tax outcomes

Capital management provides the ability to offset capital losses against assessable income

Operational efficiencies through netting of trades

Income management – respecting the 45-day rule to secure franking credits

# Comparing effective tax rates for different asset classes




The table above compares the actual annual effective tax rates on distributions for different tax structures between 2019 financial year and 2023 financial year. Past performance is not an indication of future performance.

# Introducing Generation Life Investment Bonds

At Generation Life, we are focused on providing innovative ways to build an optimistic future for our investors, through a new way of tax aware investing.

Our investment bonds provide a tax-effective alternative to superannuation, with flexible estate planning features that provide certainty when it comes to transferring wealth.

“Investment returns go up when taxes go down.
It’s that simple.

# The new generation of investment bonds

### Tax paid structure

Governed by the Life Insurance and Tax Acts

### It is Tax Optimised

Our Tax Optimised series effective tax rates can generally range between 10% - 15%[1]

### No distributions and access to funds at anytime

### Creditor protection

Protection from creditors in the case of bankruptcy

### Estate planning

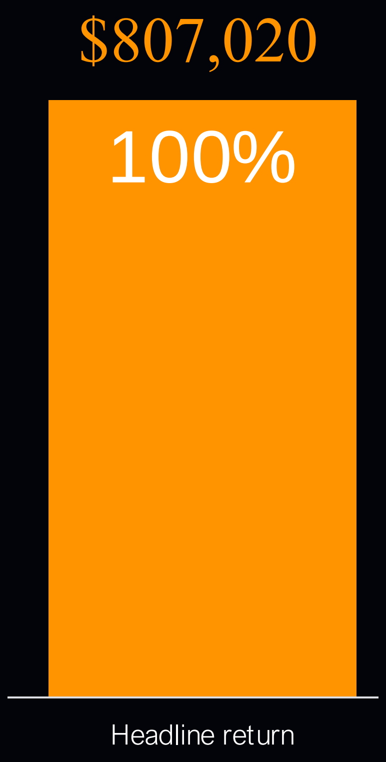
Portability and transfers can be tax-free

### Wealth transfer certainty

Can be structured as a non-estate asset

1. 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 an indication of future performance.

# How much does an investor keep from their investment…




Headline return is not consumable return

Assumption: Headline returns for the comparative fund are based on the performance of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Generation Life's Net Asset Value and attribution based on actual experience from 31 December 2018 to 31 December 2023. Clean Investment bond and 47% marginal tax rate investor return is based on tax experience and returns of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Past performance is no indicator of future performance

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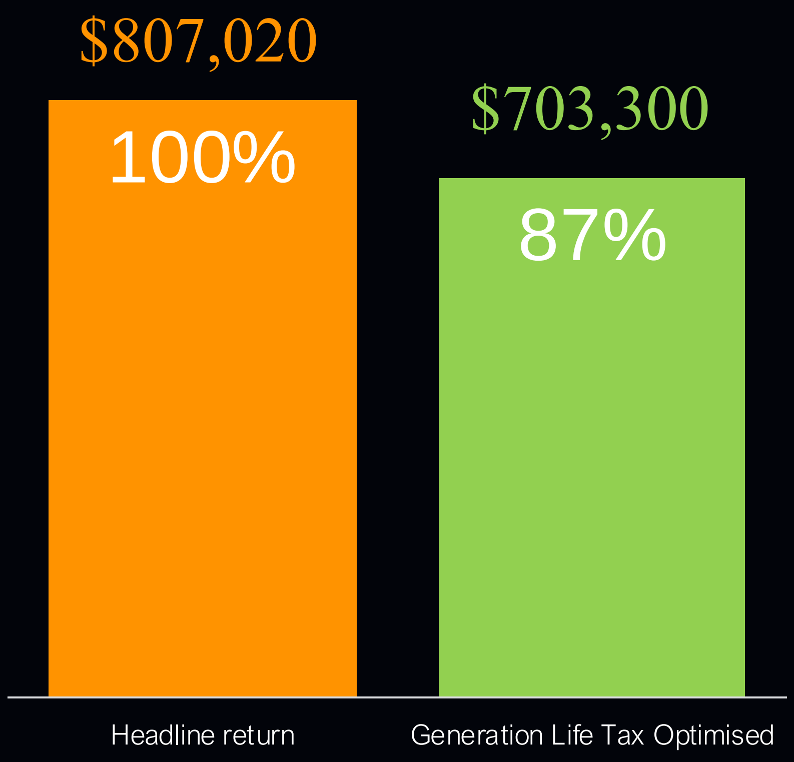
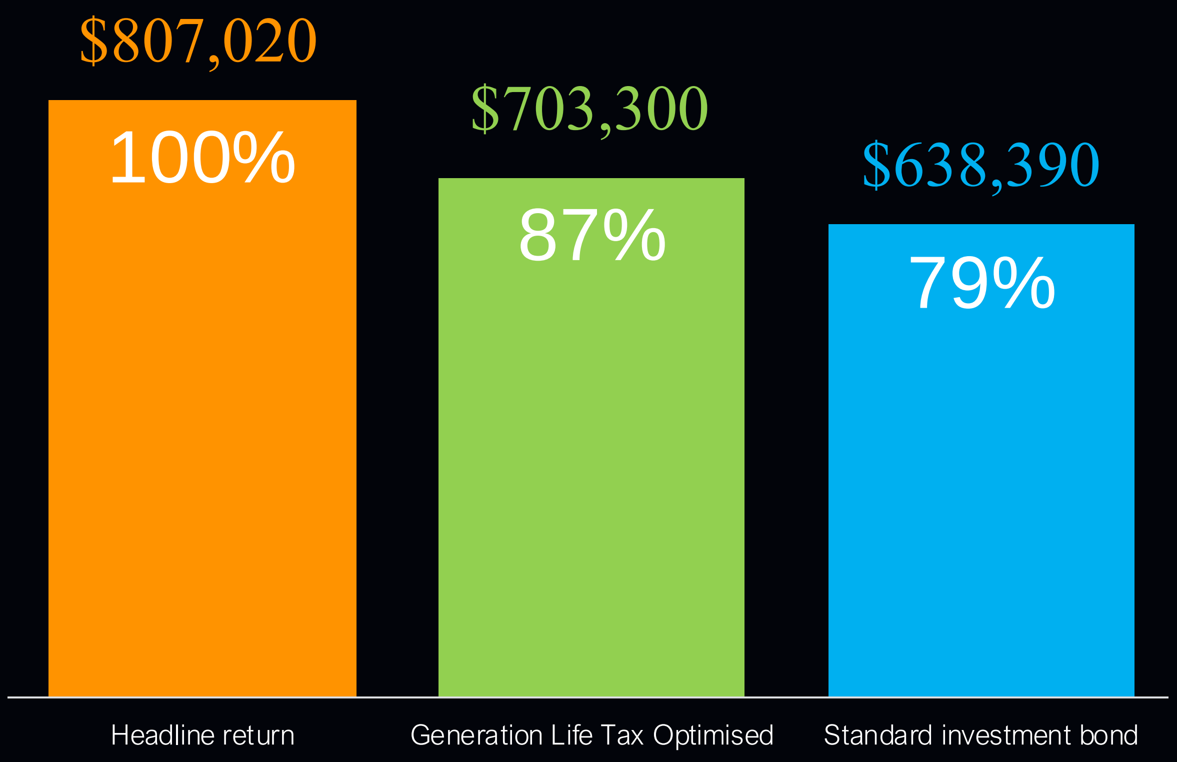



Tax-paid investing that is Tax Optimised, generating more Tax Alpha which you keep, with additional estate planning benefits

Assumption: Headline returns for the comparative fund are based on the performance of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Generation Life's Net Asset Value and attribution based on actual experience from 31 December 2018 to 31 December 2023. Clean Investment bond and 47% marginal tax rate investor return is based on tax experience and returns of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Past performance is no indicator of future performance

# How much does an investor keep from their investment…




Tax-paid investing using standard FIFO method

Assumption: Headline returns for the comparative fund are based on the performance of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Generation Life's Net Asset Value and attribution based on actual experience from 31 December 2018 to 31 December 2023. Clean Investment bond and 47% marginal tax rate investor return is based on tax experience and returns of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Past performance is no indicator of future performance

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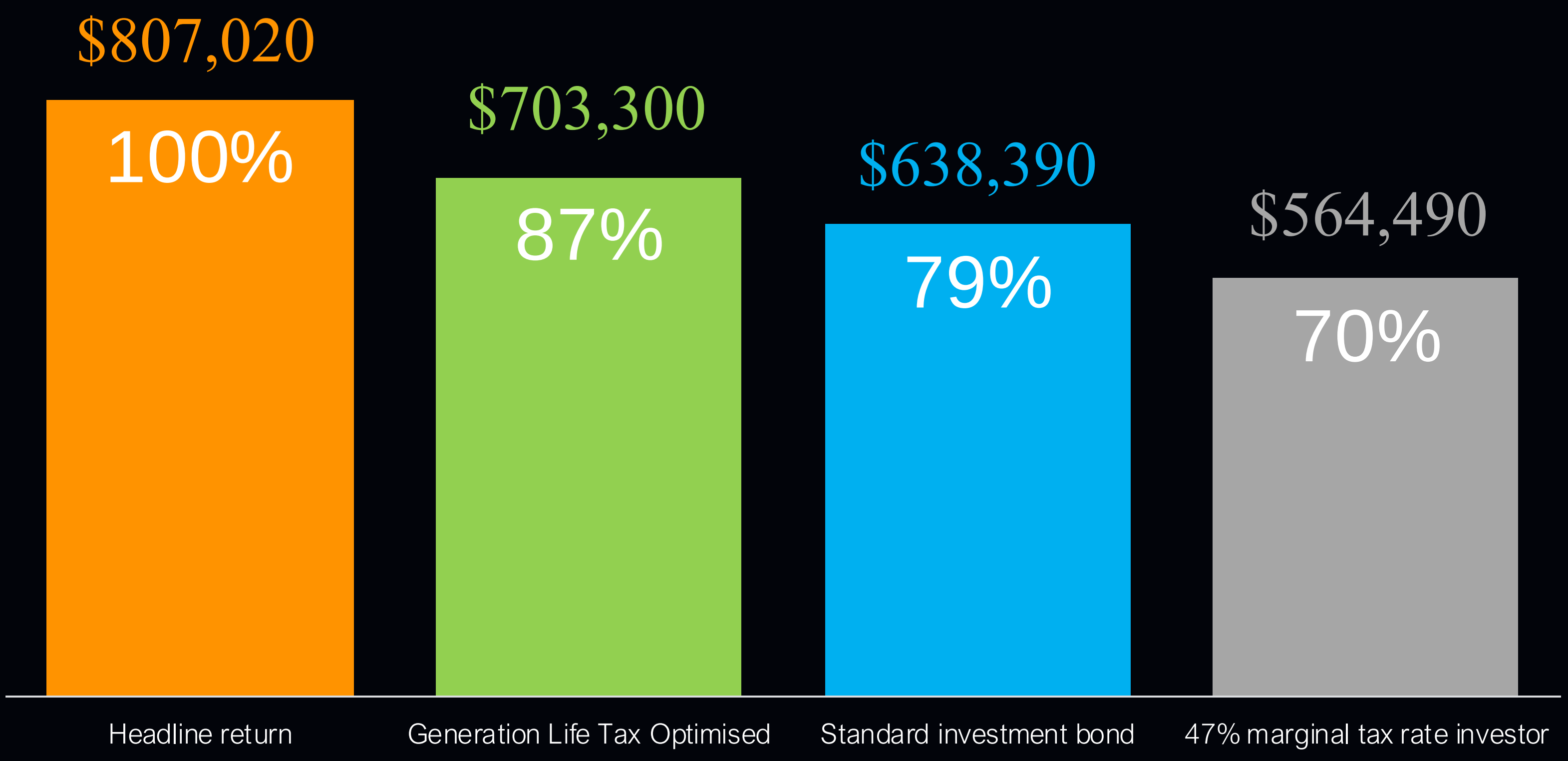


Being tax aware can increase your overall performance without additional risk

Assumption: Headline returns for the comparative fund are based on the performance of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Generation Life's Net Asset Value and attribution based on actual experience from 31 December 2018 to 31 December 2023. Clean Investment bond and 47% marginal tax rate investor return is based on tax experience and returns of the Vanguard Balanced Index ETF from 31 December 2018 to 31 December 2023. Past performance is no indicator of future performance

Case study

# Managing the impact of bracket creep through tax-paid investing

# Meet Chris…

Chris, a 35-year-old professional, earns $120,000 p.a. and has set aside $100,000 with the goal of boosting his savings potential.

# Chris' situation…

Chris consulted his financial adviser and initially explored a direct investment. He is comfortable contributing $3,500 per month into a growth investment, with plans to increase his contributions by 5% p.a. to outpace the current rate of inflation.

# Chris' situation…

Due to Chris' appetite for risk with a high-growth portfolio, his financial adviser is mindful that this approach may accelerate his exposure to tax bracket creep within the next two years, based on his current income.[1]

| Year | Assessable employment income | Assessable income from managed fund | Total assessable income | Marginal tax rate on total income[2] |
|---|---|---|---|---|
| 1 | $120,000 | $4,724 | $124,724 | 32.0% |
| 2 | $123,600 | $6,651 | $130,251 | 32.0% |
| 3 | $127,308 | $8,770 | $136,078 | 39.0% |
| 4 | $131,127 | $11,092 | $142,220 | 39.0% |
| 5 | $135,061 | $13,620 | $148,681 | 39.0% |
| 6 | $139,113 | $16,369 | $155,481 | 39.0% |
| 7 | $143,286 | $19,365 | $162,651 | 39.0% |
| 8 | $147,585 | $22,628 | $170,212 | 39.0% |
| 9 | $152,012 | $26,176 | $178,188 | 39.0% |
| 10 | $156,573 | $30,031 | $186,604 | 39.0% |
| 11 | $161,270 | $ 79,763 | $241,033 | 47.0% |

1. This assumes an assessable employment income increase at 3% p.a. and Australian resident income tax rates and thresholds as at 2024-2025 apply. Past performance is not an indication of future performance.
2. Including Medicate levy of 2% p.a.

# Is there a better way?

Chris' financial adviser recommended an investment bond to accumulate wealth tax-effectively while reducing the impact of bracket creep. Investment bond is a tax-paid structure, investment earnings are tax-paid by Generation Life and not at Chris' personal marginal tax rate[1]. This means he can maintain his current marginal tax bracket for the next 4 years.

| Year | Assessable employment income[2] | Marginal tax rate on total income[3] |
|---|---|---|
| 1 | $120,000 | 32.0% |
| 2 | $123,600 | 32.0% |
| 3 | $127,308 | 32.0% |
| 4 | $131,127 | 32.0% |
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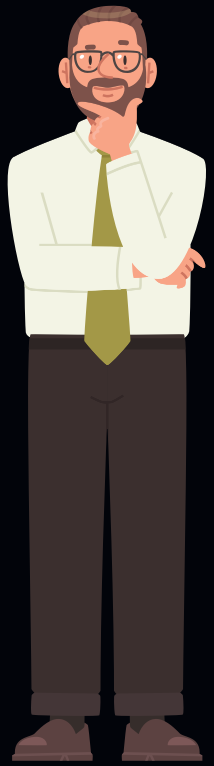


1. If no withdrawals are made within the first 10-years
2. This assumes an assessable employment income increase at 3% p.a. and Australian resident income tax rates and thresholds as at 2024-2025 apply. Past performance is not an indication of future performance.
3. Including Medicate levy of 2% p.a.

# Let's compare…

Vanguard®

Chris' financial adviser compares the Vanguard High Growth Portfolio using a Generation Life investment bond structure against direct investing.

| | Headline investment return | Tax Optimised gross after-tax return | 47% individual MTR after-tax return | 39% individual MTR after-tax return | Company investor after-tax return | Tax Optimised after-tax return (after fees) |
|---|---|---|---|---|---|---|
| 1 Year | 21.22% | 16.73% | 10.30% | 11.89% | 13.65% | 16.33% |
| 2 Year p.a. | 17.97% | 14.20% | 12.78% | 13.62% | 12.51% | 13.80% |
| 3 Year p.a. | 7.18% | 5.76% | 4.29% | 4.69% | 4.58% | 5.36% |

If Chris was invested during this period, he would be 67 bps ahead compared to direct investing.

Past performance is no indicator of future performance. For assumptions, please refer to the Tax Optimised brochure: https://genlife.com.au/tax-optimised-brochure

Case study

# Comparing alternative tax-paid structures

# Meet Liam and Katy…

Liam is 50 years old, and Katy is 45 years old, both at the top marginal tax rates. They currently have a loan for their home they purchased in their 30s.

# Liam and Katy’s situation…

Liam and Katy recently received an inheritance following the passing of Liam's mother.

They used the inheritance to pay off their home loan, leaving them with $500,000 in funds.

# Liam and Katy’s objective…

Undecided whether to use the funds to upgrade their home, go on a big holiday or retire early, Liam and Katy speak to their financial adviser to explore the best way to invest the $500,000.

# Liam and Katy situation…

Their adviser explores various investment vehicles.

| | Direct Investment | Family Trust | Superannuation | Company | Investment Bond |
|---|---|---|---|---|---|
| How is the investment option taxed? | Investments will be impacted by their personal marginal tax rates of 47% | Tax flow through structure.<br><br>Beneficiary tax rates 47%<br><br>They have minor children that cannot take on distributions | Taxed at maximum 15% | Taxed 30% | Taxed at maximum 30% |
| How easily can funds be accessed? | Access to funds<br><br>Capital gains discount ≥1 year | Access to funds<br><br>Capital gains discount ≥1 year | Preservation limits - 10-15 years away from access<br><br>Capital gains discount ≥1 year | Access to funds but with tax implications for withdrawals | Access to funds<br><br>30% tax offset available on withdrawals before 10-years<br><br>No personal capital gains tax payable<br><br>Tax paid after 10 years<br><br>Transferability |
| Does this investment option have other limitations? | Capital gains implications<br><br>'Take home' returns diluted<br><br>Limits in transferability | Capital gain implications<br><br>'Take home' returns diluted | May be impacted by future changes to superannuation<br><br>Concessional and non-concessional contribution limits<br><br>Death benefit tax may apply | Possible Division 7A issues<br><br>Limits in transferability and access to funds without tax consequences | Top up tax payable on withdrawals made before 10-years if MTR is 47% at time of withdrawal |
| How costly is it to run? | Platform and fund manager fees | Set up and running costs plus fund manager, investment and platform fees | Super fund fees plus fund manager fees | Set up and running costs plus fund manager, investment and platform fees | Generation Life and fund manager fees |

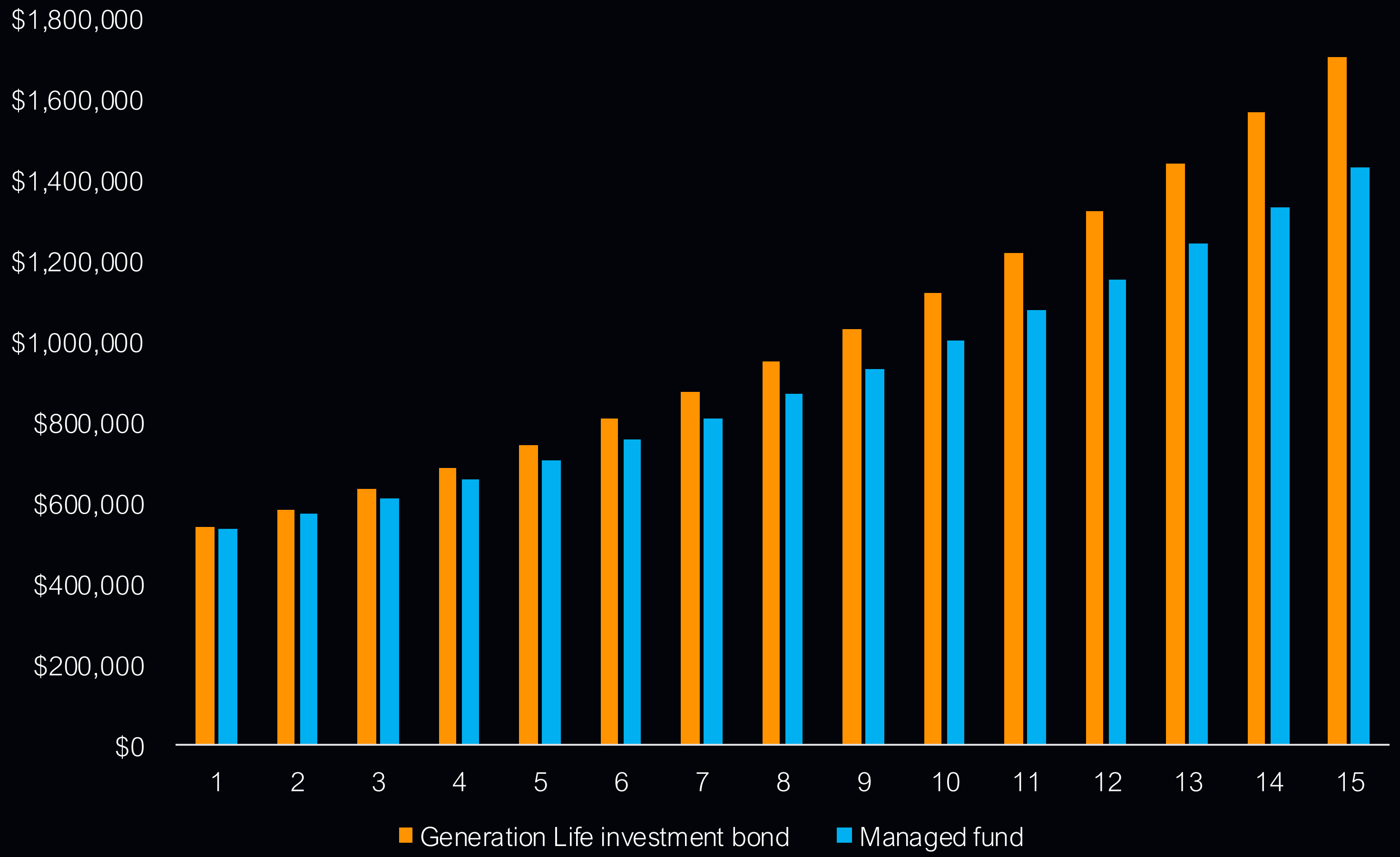
# Liam and Katy's solution…

As early accessibility to funds is a key consideration, Liam and Katy have ruled out additional contributions into superannuation.

Given that they would be their own trustees, both direct and trust investments would be interchangeable and not worth the additional costs. Their financial adviser also dismisses the company structure as an option.

# Liam and Katy solution…

Maintaining accessibility, they compare direct versus Generation Life Investment Bonds.




**$270,342**
more with an investment bond

## Assumptions

| | |
|---|---|
| Initial investment | $500,000 |
| End Investment value | $1,704,474 |
| Investor marginal tax rate | 47% |
| Investment bond effective tax rate | 7.6% |
| Managed Fund effective tax rate | 24.7% |

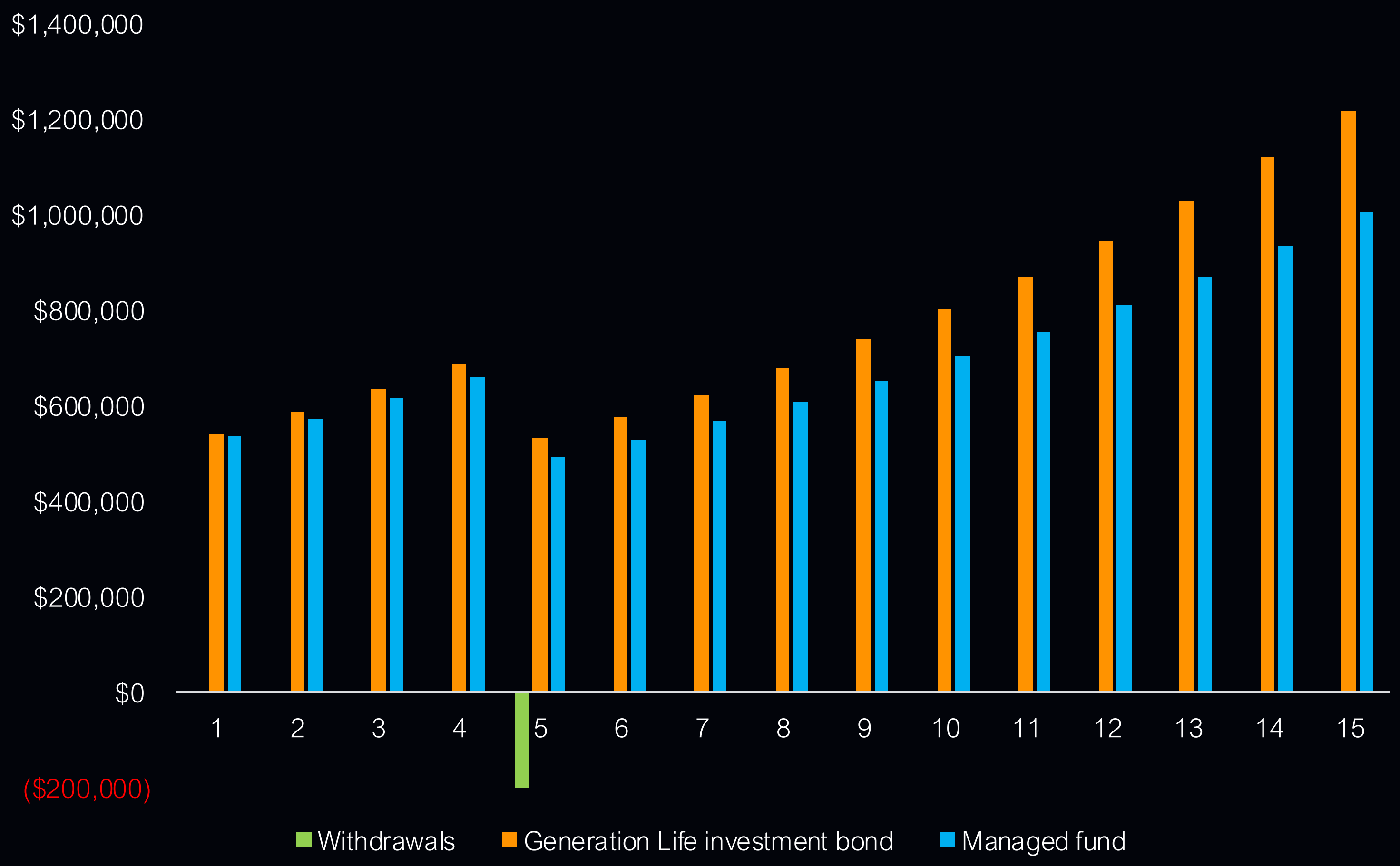
## Pre-tax managed fund return

| | |
|---|---|
| Income return | 3.0% |
| Growth return | 6.5% |
| Total return | 9.5% |

Past performance is no indicator of future performance.

# Liam and Katy solution…

In five years, they decide to withdraw $200,000 to take their family on a dream holiday and buy a new car.




Past performance is no indicator of future performance.

**$213,284**
more with an investment bond

## Assumptions

| | |
|---|---|
| Initial investment | $500,000 |
| End Investment value | $1,218,035 |
| Investor marginal tax rate | 47% |
| Investment bond effective tax rate | 7.6% |
| Managed Fund effective tax rate | 24.7% |

## Pre-tax managed fund return

| | |
|---|---|
| Income return | 3.0% |
| Growth return | 6.5% |
| Total return | 9.5% |

# Liam and Katy’s outcome…

## Tax efficiency

By investing in an investment bond, Katy and Liam can achieve a lower average effective tax rate of 7.6% compared to 24.7% for direct investment.

## Better long-term growth

Over 15 years, the investment bond generated an additional $270,342 compared to a direct managed fund investment.

## Access to funds at anytime

Investment bonds provides them the opportunity to withdraw $200,000 after five years for a dream holiday and a new car.

## Simplified setup

Complementing superannuation and avoiding complex structures like trusts and companies, can reduce the initial setup and ongoing costs.

## Estate Planning benefits

Investment bonds offer the potential to create non-estate assets, ensuring easier wealth transfer to their children.

## Creditor protection

Investment bonds provide an added layer of asset protection.

Past performance is no indicator of future performance.

# Don’t let taxes control you…

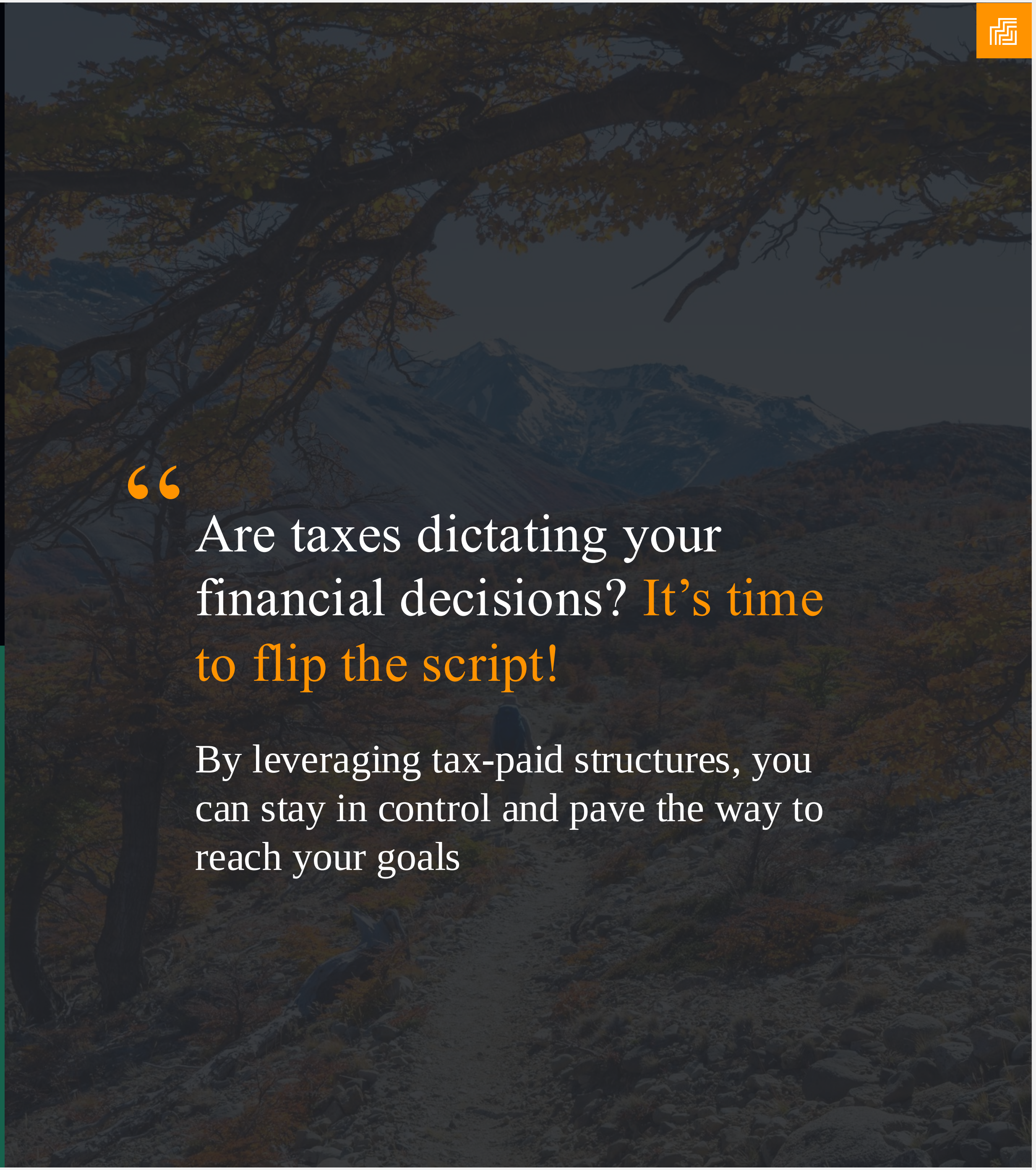
The impact of tax:

- Bracket creep and marginal tax rate uncertainty
- Investment tax magnifies behavioural bias & stress.
- Missed opportunities for compounding growth due to tax inefficiencies.

Tax-Paid Structure Advantages:

- Certainty & simplicity: Taxes are paid within the structure, so investors keep what they earn.
- More growth: Lets wealth be able to grow without yearly tax surprises.*
- Peace of mind: Your clients focus on building their dreams, not managing & paying taxes.

* Subject to their higher MTR, tax offsets and deductions.



“Are taxes dictating your financial decisions? It’s time to flip the script!

By leveraging tax-paid structures, you can stay in control and pave the way to reach your goals

# We are here to help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# Thank you.

## Generation Life

Highly recommended for over a decade

Note: Chant West rating for LifeBuilder and Child Builder

## Awards


## Research ratings


LifeIncome

Investment Bonds