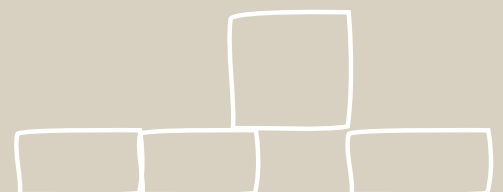


STRATEGY BOOKLET: FOR ADVISER USE ONLY

## Exploring different strategies for your clients using tax-effective investment bonds





# Introduction

IOOF WealthBuilder is an investment product much like many others in that it provides a choice of underlying investment options and a range of quality investment managers. However, it also provides a unique and simple solution for investment, tax planning and estate planning needs.

WealthBuilder provides an alternative tax structure to superannuation and has a number of key advantages over other investment products:

- **Tax effective:** income is taxed at the corporate rate and not marginal rates.
- **No capital gains:** when investors switch between investment options, they don't incur any capital gains tax.
- **No impact on tax returns:** there's no need for investors to include anything (income or capital gain) on their tax returns if their funds remain invested for 10 years. If withdrawn in less than 10 years, tax rebates apply. After 10 years there is no tax liability whatsoever on withdrawals.
- **Access to funds:** funds invested in WealthBuilder may be accessed at any time, and unlike super, investors don't need to meet a condition of release.
- **Nominate beneficiaries:** investors can nominate beneficiaries and the proceeds can be paid very quickly with no tax implications.
- **Loan facility:** investors have access to a loan facility which allows them to borrow for investment purposes using WealthBuilder.

## Developing strategies for your clients needs

This brochure has been designed with advisers in mind to support them when they are formulating strategies for clients. IOOF has divided the strategy scenarios into four sections, aligned to the different life stages of clients as detailed on the following pages:

<b>4</b>	<b>Planning and building a future</b>
6	Strategy 1: Gearing using the Loan Facility
<b>8</b>	<b>Education savings</b>
10	Strategy 2: Education Savings
11	Strategy 3: Investing for minors and use of the Childs Advancement Policy
<b>14</b>	<b>Tax management</b>
16	Strategy 4: Tax effective wealth accumulation for high income earners
<b>18</b>	<b>Estate planning</b>
20	Strategy 5: Tax efficient savings for estate planning
21	Strategy 6: Aged care and social security
23	Strategy 7: Asset protection and business succession planning for retirement

Planning and building a future

Education savings

Tax management

Estate planning



# IOOF WealthBuilder Funds summary

	Investment objective
<b>Easy Choice Options</b>	
<b>Capital Guaranteed Fund</b>	To achieve security of capital including accrued annual bonuses and returns that exceed inflation over the medium to long term. It offers the highest level of security because of the secure nature of its investments and reserving requirements. Your original capital plus all allocated bonuses less fees, are guaranteed.
<b>Capital Stable Fund</b>	To achieve a relatively high level of capital stability and moderate <i>capital growth</i> over the medium to long term and provide a total return higher than the return of its <i>benchmark</i> by investing in a range of investments across the major asset classes.
<b>Fixed Interest Fund</b>	To achieve a high level of capital protection with competitive returns superior to its <i>benchmark</i> that over the medium term should outpace inflation and exceed those available from the Capital Guaranteed Fund
<b>Balanced Fund</b>	To achieve capital growth over the medium to long term and provide a total return higher than the return of its benchmark, by investing in a range of investments across the major asset classes.
<b>Australian Shares Fund</b>	To achieve a high level of capital growth over the long term with returns that outperform the S&P/ASX 300 Accumulation Index, measured on a rolling three year basis, by investing in a diversified portfolio of Australian industrial and resource shares.
<b>High Growth Fund</b>	To achieve a high level of capital growth over the long term and provide a total return higher than the return of its benchmark, by investing in a diversified portfolio of predominantly growth assets.
<b>Custom Choice Options</b>	
<b>Australian Shares Fund – MultiMix</b>	To provide capital growth of your investment over the long term by investing in a diversified portfolio of Australian shares, and to achieve a total return in excess of the S&P/ASX 300 Merged Accumulation Index over a rolling five year period.
<b>International Shares Fund – MultiMix</b>	To provide capital growth of your investment over the long term by investing in a diversified portfolio of international shares, and to achieve a total return in excess of the MSCI World (ex-Australia) Accumulation Index – unhedged over a rolling five year period.
<b>Smaller Companies Fund – Perennial</b>	To grow the value of your investment over the long term via a combination of capital growth and tax effective income by investing in a diversified portfolio of Australian shares not included in the S&P/ASX Top 50 Index and to provide a total return that exceeds the S&P/ASX Small Ordinaries Accumulation Index measured on a rolling three year basis.
<b>High Conviction Shares Fund – Perennial</b>	To grow the value of your investment over the long term via a combination of capital growth and income by investing in a concentrated selection of “growth oriented” shares. Although the portfolio is <i>benchmark</i> unaware in portfolio construction, the Fund’s objective is to provide a total return that exceeds the S&P/ASX 200 Accumulation Index by 4% pa measured on a rolling five year basis.
<b>Global Property Securities Fund – Perennial</b>	To grow the value of your investment over the long term through a combination of capital growth and income by investing in a broad selection of international property securities. The Fund’s objective is to provide a total return that exceeds the FTSE EPRA/NAREIT Global Real Estate Total Return Index – hedged measured over a rolling three year period.
<b>Global Shares High Alpha Fund – Perennial</b>	To provide a total return after fees that exceeds by 3% to 5% pa the rate of return of cash investments, as measured by the UBSA Bank Bill Index.

2

The table above gives you a summary of the WealthBuilder Funds. These features are subject to change from time to time. For more information please refer to the IOOF WealthBuilder Product Disclosure Document (PDS) including any supplementary PDS. The IOOF WealthBuilder PDS is available on our website [www.ioof.com.au](http://www.ioof.com.au)

<sup>1</sup> The ‘Composite’ *benchmarks* incorporate the applicable indices or benchmarks for each underlying asset class weighted against the Fund’s target (or neutral) *asset allocation*. For more information on benchmarks used for each asset class, please refer to page 33, of the PDS.

<sup>2</sup> For more information on risks, please refer to page 34 of the PDS. The risk/return profiles listed re based on our assessment of the relevant Fund’s risk profile. We recommend you speak to your financial adviser to assess whether the Funds are appropriate for your specific investment requirements.

<sup>3</sup> Any investment management fees paid to underlying investment managers are paid out of this fee and are not an additional charge to investors. Expense recoveries are not included in this fee. Contribution fees also apply. Please see page 36 of the PDS for full details on ‘Fees and Costs’.

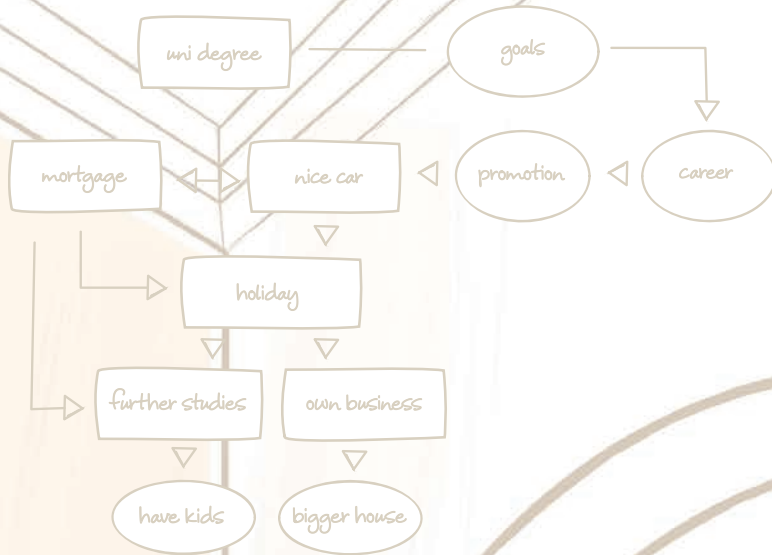
<sup>4</sup> For more information on the maximum *buy/sell spreads* listed, please refer to page 38 of the PDS.

**Investment objectives are not predictions or forecasts. They simply represent the measure by which performance of the Fund is monitored and assessed.**

Benchmark <sup>1</sup>	Minimum recommended investment period	Risk/Return profile <sup>2</sup>	Management costs (% pa) <sup>3</sup>	Buy/Sell spread (%) <sup>4</sup>	APIR code
UBSA Bank Bill Index	No minimum	Low	1.5	Nil	IOF0311AU
Composite	3 years	Low to Medium	1.5	0.30	IOF0009AU
Australian: UBSA Composite Bond Index (0+ years) International: Lehman Brothers Global Aggregate Index – \$A <i>hedged</i>	3 years	Medium	1.5	Nil	IOF0008AU
Composite	4 years	Medium to High	1.5	0.50	IOF0010AU
S&P/ASX 300 Accumulation Index	5 years	High	1.5	0.60	IOF0017AU
Composite	7 years	Very high	1.5	0.66	IOF0134AU
S&P/ASX 300 Merged Accumulation Index	5 years	High	1.9	0.60	IOF0133AU
MSCI World (ex-Australia) Accumulation Index – unhedged.	5 years	High	1.9	0.66	IOF0135AU
S&P/ASX Small Ordinaries Accumulation Index	5 years	High	1.9	0.60	IOF0132AU
S&P/ASX 200 Accumulation Index	5 years	High	1.9	0.60	IOF0129AU
FTSE EPRA/NAREIT Global Real Estate Total Return Index – <i>hedged</i>	5 years	Medium to High	1.9	0.70	IOF0130AU
UBSA Bank Bill Index	5 years	High	1.9	0.80	IOF0131AU

#### Minimums

	Initial Investment – without Regular Savings Plan	Initial Investment – with Regular Savings Plan	Additional Investment	Regular Savings Plan (per month)	Balance	Switch/Withdrawal	Regular Withdrawal
<b>Per Account</b>	\$2,000	\$500	\$500	\$100	\$2,000 (or \$500 <i>with</i> Regular Savings Plan)	\$500	\$200
<b>Per Fund</b>	\$500	\$500	\$500	\$100	\$500	\$500	–



WealthBuilder gives investors the ability to save or invest towards a goal while still being able to access their money at any time, if they need to. They can start investing with as little as \$500 with a **regular savings plan (RSP)**. The RSP allows them to organise regular direct debits from their financial institution account on a monthly basis.

Due to the tax paid structure of investment bonds, there are some limits around the maximum contributions that can be made to a WealthBuilder account each year. Put simply, after the first year, investors can invest (in any one year) up to **125 per cent** of the previous anniversary year's net contribution amount, without affecting the tax benefits of their account.

WealthBuilder also has a **loan facility** that allows investors to borrow against their investment to grow their wealth. There are currently no loan fees, establishment fees or stamp duty payable. Investors can access their savings at any time, or even use the **regular withdrawal facility** to supplement their other income if they choose.

It is important to know and understand the rules and tax implications around withdrawing money from a WealthBuilder account.

# Planning and building a future: growing wealth to support your clients dreams



# Strategy 1: Gearing utilising the loan facility

## Overview

Investors with a WealthBuilder investment have access to a straight-forward and tax effective loan facility, whereby they can borrow money from IOOF using their WealthBuilder investment as security for the loan. The loan facility allows investors to access interest-only investment loans, with the principal generally being repayable when the WealthBuilder investment matures or is surrendered by the investor. The current borrowing capacity is based on the balance of the investor's investment portfolio. The table below shows the maximum borrowing limits for individual investors.

## Current borrowing limits

Current borrowing limits permitted against holdings in each Fund are:

WealthBuilder Fund	Maximum borrowing limit
<b>Easy Choice Options</b>	
Capital Guaranteed Fund	90%
Fixed Interest Fund	90%
Capital Stable Fund	80%
Balanced Fund	70%
Australian Shares Fund	60%
High Growth Fund	60%
<b>Custom Choice Options</b>	
Australian Shares Fund – MultiMix	60%
Smaller Companies Fund – Perennial	60%
High Conviction Shares Fund – Perennial	60%
International Shares Fund – MultiMix	50%
Global Property Securities Fund – Perennial	50%
Global Shares High Alpha Fund – Perennial	50%

**Note:** Borrowing limits are subject to change from time to time without notice to investors.

Currently, there are no loan fees, establishment fees or stamp duty on the loan facility.

The interest rates effective as at 1 July 2011 are detailed below but check the IOOF website [www.ioof.com.au](http://www.ioof.com.au) for current rates as rates are subject to change over time.

Fixed rate loan	Paid in advance	6.29%
Variable rate loan	Paid annually in arrears on 30 June	5.99%

## Strategy analysis

Gearing through WealthBuilder gives investors the opportunity to use the power of their original investment to access additional funds to invest in other income-producing assets.

Unique in the market place, the loan facility provides a straight-forward and tax effective way of combining the tax advantages of borrowing to invest with the security of having your client's original funds invested tax effectively.

The facility can provide investors the ability to borrow additional funds to invest in an alternative investment at a 100 per cent gearing rate with the borrowed funds. This can maximise the overall return on the ordinary investment due to tax benefits associated with negative gearing.

The case study further on in this section illustrates the potential financial benefits of the loan facility.

## Advantages/disadvantages

Advantages	Disadvantages
Ability to maximise the benefits of gearing. Up to 90% of the investment value is available for loan (depending on fund option).	Limitation of borrowing percentages.
Competitive interest rate and no loan fees.	Need to find an appropriate investment to invest borrowed funds into for example IDPS or alternative managed fund.
Two flexible loan repayment options: fixed or variable.	The 125% rule <sup>5</sup> regarding regular savings plans and the 10 year rule <sup>6</sup> .
Maximum tax rate of 30% taxed in the hands of the life company.	
This rate may be lower than some investors' marginal tax rate (up to 45%) which would be applicable to earnings from other investment options, such as managed funds.	
No CGT payable on sale of bond.	

<sup>5</sup> Every year, up to 125 per cent of the previous year's contributions can be added to the bond without restarting the 10 year investment period for tax purposes.

<sup>6</sup> Bonds can be withdrawn with no personal income tax liability after a 10 year period from the start date of the investment but withdrawals before this time can create tax liabilities. The tax applicable is based on the year of withdrawal. The growth component of withdrawals received in less than 9 years is fully assessable. Growth on withdrawals received in year 9 is two thirds assessable. Growth on withdrawals received in year 10 is one third assessable. Tax rebates also apply where withdrawals are made during the first 10 years.

## Tips and traps

If the value in the investor's WealthBuilder portfolio reduces or the value of the investment made with the borrowed funds reduces, they still have to pay back the original loan amount plus interest.

Due to the benefits of franking, generally the dividend yield required for an investor to break even on a fully geared share investment is much less than the interest rate. It is important to note that any capital gain on the sale of shares is generally taxable at the investor's marginal tax rate in the year of sale. For individuals, 50 per cent of the gain is exempt from tax if the shares have been held for at least 12 months. Ideally, the sale should be made in a low tax year.

A negatively geared investment does provide tax benefits to the investor. These benefits are of no use unless the investment generates income or the investor has other sources of income to offset the cost of financing that investment.

## Case study: comparing the IOOF Loan Facility with a gearing facility

James has repaid his home mortgage, is on the top marginal tax rate and has an annual cash surplus of \$15,000. He has an investment timeframe of 11 years.

### James' investment options

James can:

- invest in a regular Australian share managed fund with an 8.5 per cent return (5 per cent growth and 3.5 per cent income), net of fees, and use a gearing facility (providing an extra \$9,000 pa).
- invest via WealthBuilder with an 8.5 per cent return (5 per cent growth and 3.5 per cent income), net of fees, utilising the loan facility (providing an extra \$9,000 pa).

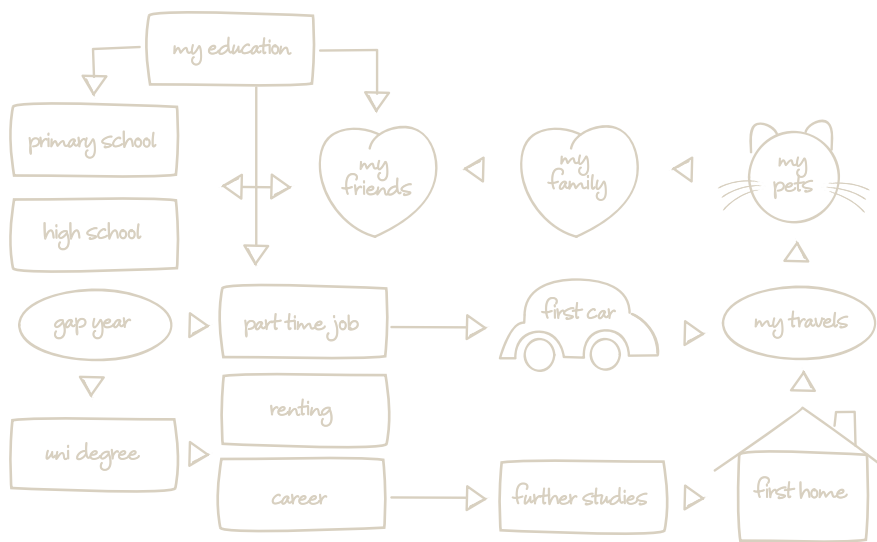
After 11 years with an annual investment of \$15,000 and \$9,000 borrowed each year, results show the following (assumed interest rate of WealthBuilder loan facility is 6.5 per cent and margin loan interest rate of 9.5 per cent):

Investment options	Net proceeds after 11 years	Assumptions
Ordinary investment in Australian Share Fund	\$213,413 (\$90,000) <b>\$123,493</b>	Tax rate for CGT based on 46.5% and interest rate of 9.5%.
WealthBuilder investment in Australian Share Fund	\$223,351 (\$90,000) <b>\$133,351</b>	Only CGT payable on geared investment of \$9,000 pa and interest rate based on current variable Loan Facility rate of 6.5%.

## Opportunities

Investing a client's own capital into a bond and utilising the Loan Facility to invest in a regular investment can maximise returns due to associated tax benefits.

Generally, margin lending interest rates are higher than the Loan Facility rates.

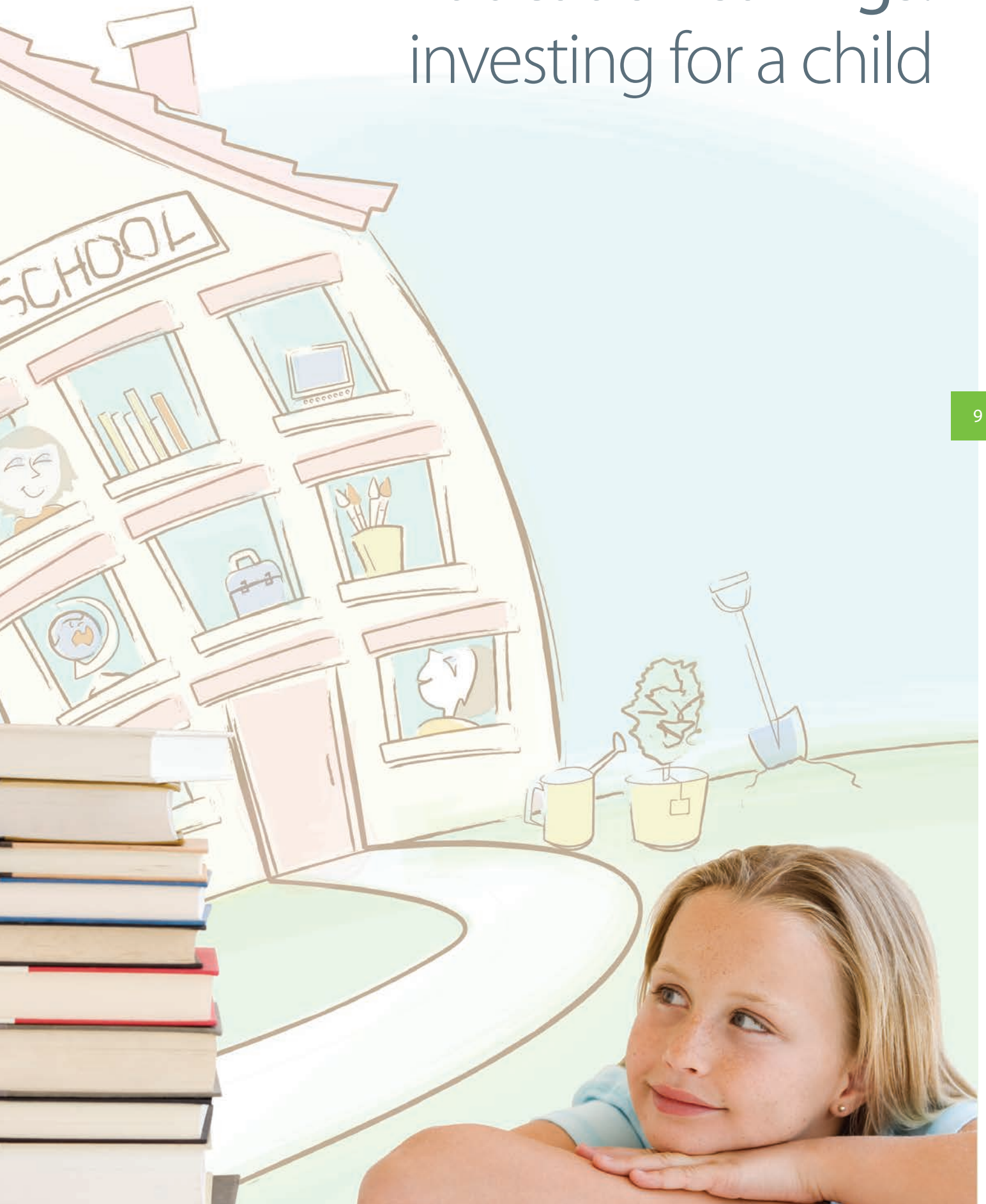


What better investment can be made than a child's education?

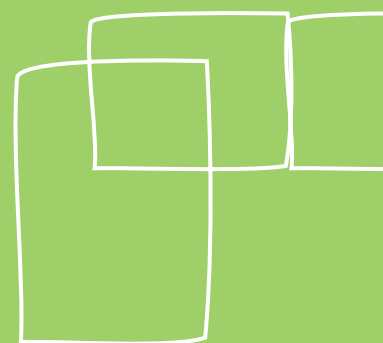
Regardless of what type of school a child attends, there will be costs involved. To help ease the burden of saving for a child's education – whether it be for secondary school or tertiary studies – WealthBuilder can assist with education savings.

WealthBuilder allows an investor to set up a fund for education savings, add a regular savings plan or draw on the loan facility. They might also like to consider a Child Advancement Policy where they can build education savings for a child or grandchild, but with the flexibility to spend it on other financial priorities if needed, such as first car, an overseas holiday, wedding expenses or deposit on a home.

# Education savings: investing for a child



# Strategy 2: Education savings



## Overview

Education funds in Australia are becoming more popular with Generation X & Y investors as they are concerned at an earlier age (more than earlier generations) to put money aside for their children's education. With living costs, mortgage stress and the overall costs of children increasing (for example childcare), finding an easy and appropriate investment structure to cover these future costs is vital.

## Strategy analysis

Utilise a WealthBuilder **regular savings plan** as an investment vehicle for the future benefit of a child's education expenses.

## Advantages/disadvantages

Advantages	Disadvantages
Maximum tax rate of 30% taxed in the hands of the life company. This rate may be lower than some investors' marginal tax rate (up to 45%) which would be applicable to earnings from other investment options, such as managed funds.	The 125% rule regarding regular savings plans and the 10 year rule (see explanation in Strategy 1).
Ability to establish a savings plan for education.	Child investors between age 10 and 16 (or the parent or grandparent of the child) cannot exercise their investment right in regards to the bond until the child reaches 16 years.
As bonds are a tax-paid investment, there is no need to include bond earnings in client tax returns while the money remains invested in the bond for 10 years.	
Whilst investment may be established for education purposes, funds may be used for anything.	
Can be established with child vesting age up to 25 years. Useful for anything from covering primary school to tertiary studies costs or purchasing a first car.	

## Savings Opportunities

Assume an investor established an insurance bond investment with a regular savings plan (within the 125 per cent rule) receiving net annual returns of 8 per cent (income 3.5 per cent) – what will be the future value?

Investment – investment bond	Net value in year 15	Net value in year 15 – if investment at 45% MTR
Initial investment of \$1,000 and \$100 p/m (\$1,200 pa)	\$34,387	\$30,780
Initial investment of \$5,000 and \$100 p/m (\$1,200 pa)	\$45,698	\$39,882
Initial investment of \$10,000 and \$100 p/m (\$1,200 pa)	\$59,837	\$51,260

# Strategy 3: Investing for minors and use of the Child Advancement Policy

## Overview

It can be difficult to find a suitable investment option when investing for a child/minor, as income earned by a minor may be subject to minor's tax rates. The minor tax rates for 20011/12 are:

Taxable income	Tax rate
Up to \$416	Nil
\$416 - \$1,307	66%
Over \$1,308	45%

Note that the tax-free threshold is only \$416 as the low income tax offset of \$1,500 is not available any more.

## Strategy analysis

WealthBuilder is an attractive vehicle for parents and grandparents who wish to gift or hold funds for children under 18 years of age. Investment earnings are taxed at a maximum of 30 per cent compared to much higher minor tax rates (as detailed above).

WealthBuilder invests in the same types of assets as unit trusts or managed funds, but does not make distributions. Tax on investment earnings are paid by IOOF as the taxpayer at the rate of 30 per cent and earnings are credited to individual accounts after this tax has been paid. As IOOF is the taxpayer, the investor does not need to declare ongoing investment growth in their personal tax return if the investment is held for 10 years.

Franking credits can also be used to reduce any tax liability within the bond.

This strategy allows for long term savings plans for a child's benefit such as a deposit for first home or even saving for a wedding. This strategy is best utilised when both of the child's parents have taxable incomes within the 40 per cent or 45 per cent tax range.

**Note:** Insurance bonds are not subject to personal Capital Gains Tax (CGT), so an investor with a marginal tax rate of 30 per cent may still benefit.

## Advantages/disadvantages

Advantages	Disadvantages
No CGT payable upon sale of bond or upon transfer to child. Also does not trigger a new start date for the 10 year period. The 125% rule does not recommence upon transfer to child.	The 125% rule regarding regular savings plans and the 10 year rule (see explanation in Strategy 1).
Can be established with child vesting age up to 25 years.	
Ability to structure ownership, life insured and beneficiary to meet client objectives.	
As bonds are a tax-paid investment, there is no need to include bond earnings in client tax returns while the money remains in the bond for 10 years.	
Maximum tax rate of 30% taxed in the hands of IOOF Ltd. It may be more beneficial than the minor rate threshold of only \$416 and then the top marginal tax rate.	

## Strategy 3: Investing for minors and use of the Child Advancement Policy continued

### Tips and traps

Children who are 10 years of age or more can own a bond directly. However, children between age 10 and 16 years of age require written consent from a parent or guardian and the child investor does not have the power to exercise their investment rights under the account until they reach 16 years of age. Alternatively, under a Child Advancement Policy, an adult can own the bond and nominate a vesting age of between age 16 and 25 years.

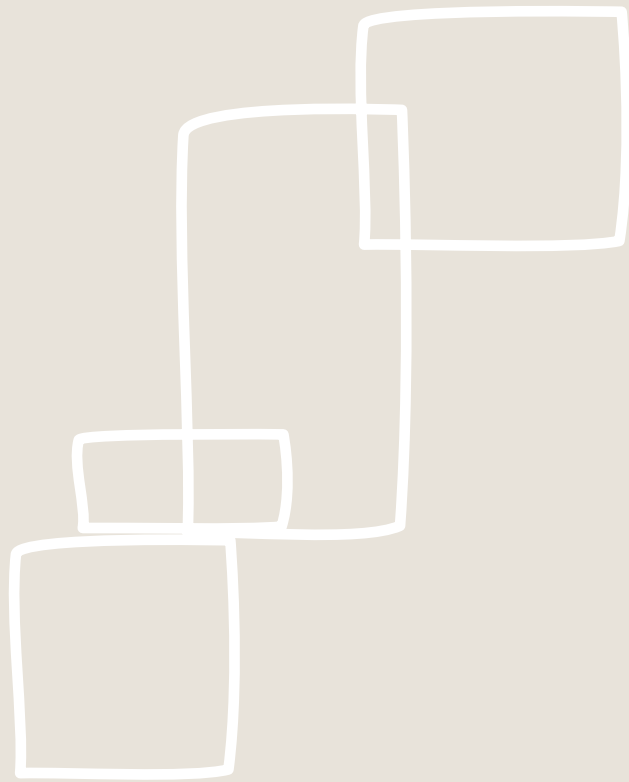
### Child Advancement Policy explained

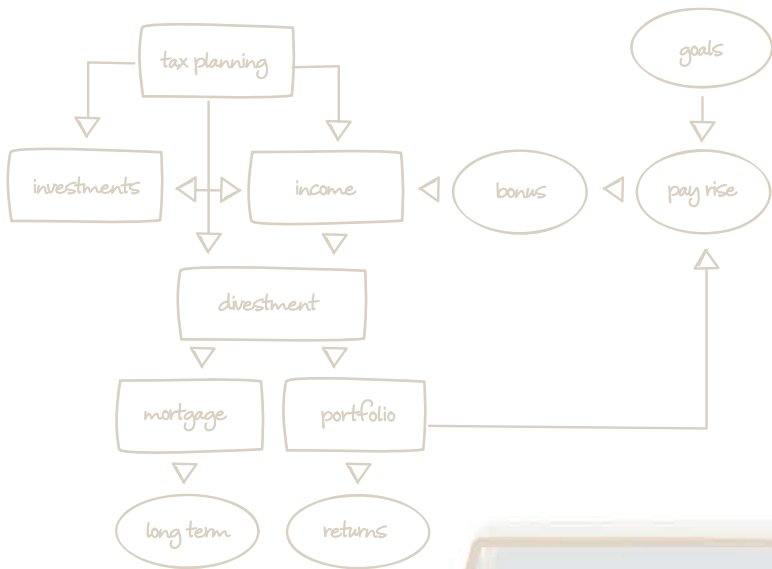
Under a Child Advancement Policy, the adult is the policy owner and the child is the life insured. The policy owner (adult) may nominate an age for the child (between 10 and 25 years of age) as the age when the Child Advancement Policy is to be transferred into the name of the life insured (child). This is known as the nominated vesting age. Where no vesting age is nominated, the Child Advancement Policy will automatically transfer to the child, when the child reaches 25 years of age. No stamp duty is payable on the transfer.

### Opportunities

Through utilising a Child Advancement Policy, investors can access a stand-alone yet straightforward vehicle to save for children's education, home deposit or wedding. Grandparents can also create an investment for their grandchildren that they can control whilst alive and then upon their death, can be transferred directly to the named grandchildren.

There is no CGT applicable upon transfer and no income assessment for the beneficiary if received upon the death of the life insured.





As an investment bond, WealthBuilder is a tax paid investment. This means that any earnings from a WealthBuilder investment get taxed at the company tax rate of 30 per cent rather than at marginal tax rates. As long as money remains invested for 10 years, IOOF pays the tax on the investment earnings so clients don't have to report the WealthBuilder earnings to the Australian Taxation Office (ATO).

If an investor withdraws their investment after 10 years they generally won't ever have to report any WealthBuilder earnings to the ATO.

If an investor chooses to withdraw their investment within 10 years from the start date of the tax period of their WealthBuilder investment account, they may need to include some of their WealthBuilder earnings in their personal income tax return. However, they will receive a full credit for the tax IOOF has already paid, so there is no doubling-up of tax.

# Tax management: make the most of what is available



# Strategy 4: Tax effective wealth accumulation for high income earners

## Overview

Clients with taxable income above \$80,000 should be paying less tax by holding investments within the bond. This is a result of the effective tax rate within the bond of just 30 per cent which is lower than their marginal tax rate.

## Strategy analysis

Clients earning a taxable income in the 37 per cent and 45 per cent tax brackets who are concerned about tax efficiency and want to accumulate tax effective wealth, may consider utilising an insurance bond to achieve tax effective savings.

An insurance bond can be used as an alternative to superannuation for wealth accumulation especially if clients have already contributed up to their superannuation concessional or non-concessional cap and where they want greater flexibility to accessing the capital in the future.

For individuals who are interested in gearing as a wealth accumulation strategy, investment bonds can usually be used as security for borrowing, whereas superannuation assets cannot be used due to legislative restrictions.

## Advantages/disadvantages

Advantages	Disadvantages
<p>Maximum tax rate of 30% taxed in the hands of the life company.</p> <p>This rate may be lower than some investors' marginal tax rate (up to 45% plus Medicare Levy) which would be applicable to earnings from other investment options, such as managed funds.</p>	<p>The 125% rule regarding regular savings plans and the 10 year rule (see Strategy 1 for explanation).</p>
<p>As bonds are a tax-paid investment, there is no need to include bond earnings in client tax returns while the money remains in the bond for 10 years.</p>	
<p>Simple investment structure as opposed to establishing a family trust and/or investment company.</p>	<p>Tax implications for early withdrawal.*</p>
<p>No Capital Gains Tax (CGT) payable upon sale of bond.</p>	
<p>Generally protected from creditors.</p>	

\* The tax applicable is based on the year of withdrawal. The growth component of withdrawals received in less than 9 years is fully assessable. Growth on withdrawals received in year 9 is two thirds assessable. Growth on withdrawals received in year 10 is one third assessable. Tax rebates also apply where withdrawals are made during the first 10 years.

## Tips and traps

For investors who have the ability to make regular contributions to their insurance bond, always ensure that the contributions are within the 125 per cent rule to avoid having to restart the 10 year investment term for tax purposes.

Withdrawals within 10 years may be assessable for tax purposes for the investor (see above). However, the investor will also be entitled to a tax rebate for tax already paid by the life company.

## Consider this example:

Paul invests in an insurance bond and establishes an annual contribution of \$5,000. After five years, his bond has a policy value of \$27,800. Paul wishes to withdraw \$10,000 in year five. He is on the top marginal tax rate of 45 per cent plus Medicare Levy.

Formula to calculate assessable amount:

$$A/B * [(B+C) - (D+E)]$$

Where:

A = amount withdrawn

B = surrender value of the policy immediately prior to withdrawal

C = any earlier amounts paid out under the policy

D = total gross amounts invested to date of withdrawal

E = previous amounts included in assessable income

$$\left( \frac{10,000}{27,800} \right) \times [(27,800+0) - (25,000+0)]$$

$$\text{Assessable amount} = 1,007$$

$$\text{Tax payable} = 1,007 * 46.5\%^7 = \$468 \text{ tax liability}$$

$$\text{Tax offset} = 1,007 * 30\%^8 = \$302$$

$$\text{Tax to be paid (by investor)} = \$468 - \$302 = \$166$$

<sup>7</sup> Includes Medicare Levy

<sup>8</sup> Tax rebate for tax already paid in insurance bond

## Case study: comparing bonds with managed funds

John, who is 40 years of age, has recently received a lump sum of \$250,000 from his mother's estate. He has no non-deductible debt and he is on the top marginal tax rate (MTR) of 45 per cent plus Medicare Levy. He also has \$15,000 annual surplus income and would like a flexible tax effective investment.

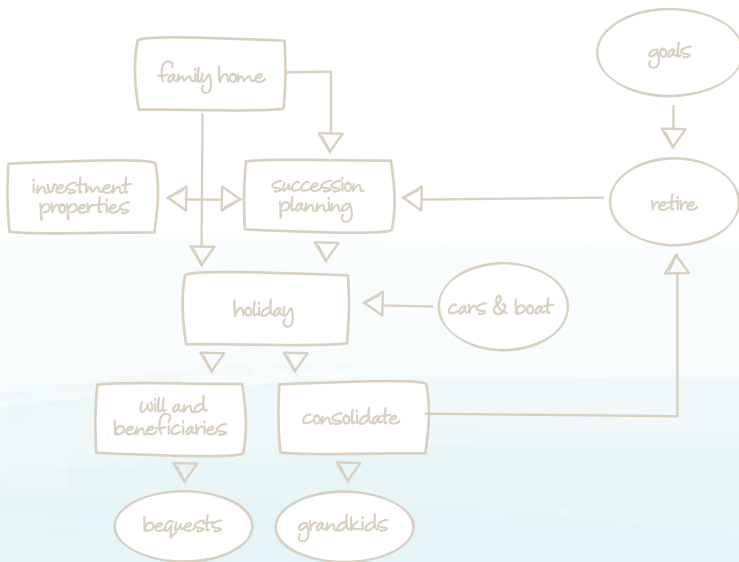
Compare an insurance bond with a different investment structure such as a managed fund. John has a 15 year investment time horizon and is investing in an Australian portfolio that provides 2 per cent income (net of fees), 50 per cent franked and 4 per cent capital growth. This assumes a bond tax rate of 30 per cent versus a managed fund taxed at his MTR of 46.5 per cent including Medicare Levy. Note that the managed fund will be subject to CGT upon sale and as managed funds are not tax paid investments like bonds, investment income earned may be assessable to the investor each year.

Investment options	Capital value after 15 years	Summary of assumptions
Insurance bond	\$934,920	Investment amount: \$250,000 Regular investment: \$15,000 Income: 2.00% Capital Growth: 4.00% Fees: 0.00% Tax rate: 30.00% Franking credits: 50.00%
Managed fund	\$818,004	Investment amount: \$250,000 Regular investment: \$15,000 Income: 2.00% Growth: 4.00% Fees: 0.00% Tax rate: 46.50% Franking credits: 50.00%

Investing in a bond such as WealthBuilder can achieve John's tax effective wealth accumulation objective, whilst offering investment choice and accessibility.

## Opportunities

Investing in bonds can provide clients with the option to invest over the long term outside of the superannuation environment. They can still retain access to capital and invest in a potentially more tax effective vehicle than a comparable managed fund.



The loss of a loved one is a sad and stressful time. WealthBuilder has been designed to provide the ability to plan ahead for how your clients will distribute their wealth when they pass away. It's about having control of how their wishes are to be carried out, and most importantly, it's about peace of mind.

WealthBuilder has different features to help your clients plan and manage their estate, including the ability to pass on their wealth to their children or grandchildren through a Child Advancement Policy or by nominating beneficiaries for when they pass away. By nominating beneficiaries the proceeds go straight to the beneficiaries rather than to their estate and as it is a tax paid investment, your clients' loved ones don't need to pay tax on the amount that they receive. WealthBuilder also has certain protections against creditors in the event of bankruptcy.

# Estate planning: providing for a family



# Strategy 5: Tax efficient saving for estate planning

## Overview

Bonds are regulated under the *Life Insurance Act 1995* and are generally treated ex-estate if paid to nominated beneficiaries. This can provide investors with peace of mind knowing that not only will their investment be passed on to intended family or friends upon their death, but that it will not be tied up in the sometimes lengthy and expensive estate probate process.

Benefits paid upon death of the life insured are not subject to tax when paid to the nominated beneficiaries or to the Estate if there is no nominated beneficiary or beneficiaries.

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## Strategy analysis

Investment savings for estate planning purposes can be held under various structures including:

- company
- superannuation
- family trust
- insurance bond
- individual name
- joint or tenant-in-common ownership.

These structures offer various tax and estate planning benefits. Generally, for high net worth clients, superannuation is paid to a superannuation dependant (under superannuation and tax law). A bond can provide the investor with a simple, tax effective estate planning vehicle which aims to ensure that their assets will be received by their elected beneficiary.

## Advantages/disadvantages

Advantages	Disadvantages
Maximum tax rate of 30%.	The 125% rule regarding regular savings plans and the 10-year rule (see explanation in Strategy 1).
No tax/CGT payable on capital being transferred to the beneficiary upon death of the life insured.	Need to understand bond structure and structure appropriately in line with the client's estate planning objectives.
Achieve investment diversification.	
Simple investment structure with no requirement to withdraw minimum annual pension payments (compared to superannuation).	

## Tips and traps

If the investor's intention is to provide capital directly to a beneficiary, the bond should be established with the owner and life insured being the same. This will reassure the investor that the benefit will not go through the estate probate process and will be available to the elected beneficiary with no potential family maintenance proceedings.

## Case study: estate planning using bonds

Bob recently passed away at 70 years of age. His net worth upon death was:

Home	\$400,000
Allocated pension (AP)	\$50,000
Managed fund portfolio	\$240,000 (cost base \$120,000 purchased post-1985)
Personal effects	\$15,000
Car	\$10,000

He left the entire estate to his son, Travis, aged 33, who is married with two children. Upon settling the estate, valued at \$715,000, Bob's estranged daughter, who he has not spoken to for over 20 years, wants to contest the estate. Unfortunately, the AP death benefit election had been to pay the benefits to the estate, and this was something Bob had been concerned about prior to his death. Bob had never received professional advice regarding the ownership of his assets and his estate planning concerns.

Had Bob discussed the issues with a financial adviser, the superannuation election could have been a binding nomination to the son and the managed fund portfolio could have been invested in a bond, with his son as the nominated beneficiary. This would have prohibited his daughter gaining access to the capital and potentially saved the maximum CGT payment of \$27,900 upon sale of the managed fund portfolio.

## Opportunities

Investors have the ability to accumulate assets and retain control whilst alive and also have their wishes met regarding their estate.

# Strategy 6: Aged care and social security

## Overview

Earnings from investment bonds are generally not taxable in the hands of the investor (as they are tax paid through the investment bond). This means that clients do not need to include earnings on tax returns whilst funds remain invested in the bond for 10 years.

An insurance bond owned by a family trust also provides income test benefits under the aged care income tested fee.

## Strategy analysis

Investment savings for estate planning purposes can be held under various structures including:

- company
- superannuation
- family trust
- insurance bond
- individual name
- joint or tenant-in-common ownership.

These structures offer various tax and estate planning benefits. Because income is not included as part of assessable or taxable income, bonds can be part of a useful strategy in maximising social security benefits for clients.

## Advantages/disadvantages

Advantages	Disadvantages
No need to complete a tax return while funds remain invested.	The 125% rule regarding contributions (see Strategy 1)
No tax/CGT payable on capital being transferred to the beneficiary upon death of the life insured.	Compared with holding a unit trust for more than 12 months, the CGT within the insurance bond may be higher.

## Tips and traps

Consider the costs of establishing and maintaining a family trust incorporating the annual cost savings in aged care.

## Case study: Low level care – Hostel

**Main focus:** strategy to reduce fees

**Client type:** high-net-worth clients/sale of family home

**Outcome:** Use of insurance bond within a Discretionary Family Trust

Ann (82) recently sold her home and will move into a low level aged care facility (such as a hostel). She has lost the age pension due to her husband passing away 18 months ago and the recovery of the share market.

Ann had been asked to pay an accommodation bond of \$350,000 and leaving net proceeds of \$1.15 million from the sale of her home to be invested into a term deposit. Her assets and income are outlined within the following table.

## Assets and income position

Investments	Capital	Income
Term deposit @ 6%	\$1,150,000	\$69,000
Shares	\$850,000	\$42,500
Accommodation bond	\$350,000	–
Age pension		\$0
<b>Total</b>	<b>\$2,350,000</b>	<b>\$111,500</b>

## Aged care fees

Based on her asset and income position, her aged care fees are outlined as follows:

- **Basic daily fee:** Ann is classified as a phased resident (as her non-pension income is above \$9,360) and pays the lower daily basic fee of \$38.33 per day.
- **Income-tested fee:** Ann's income-tested fee will be the capped at the maximum of \$64.69 per day even though the per day fee of \$78.61 is calculated as follows:

$$= (\text{Total assessable income} - \text{Total assessable income free area}) \times 5/12$$

$$= (\$89,331^9 - \$20,551.70) \times 5/12$$

$$= \$28,614.71 \text{ per annum or } \$78.61 \text{ per day}$$

<sup>9</sup> Total assessable income for calculation of the income test daily fee is \$89,331 which is her age pension of \$0, deemed income of \$89,331 from her financial investments and no adjustment for the minimum pension supplement amount since he does not receive a part age pension entitlement.

## Strategy 6: Aged care and social security continued

### Alternative strategy – Gift into a discretionary trust and invest into an insurance bond

This strategy is suitable for high-net-worth clients seeking capital preservation whilst minimising income-tested fee. Ann can reduce her income tested fee by \$16,540 per annum even though she is not receiving a part age pension.

Ann has the opportunity to gift \$1.15 million into a discretionary trust and the available funds will be invested into an insurance bond. Under the 'source test', the assets of the discretionary trust are attributed to Ann under the asset test whilst the trust distributions are counted under the income test. However, the insurance bond does not distribute income and therefore the trust has no distributable income. This means there is no income assessment for the calculation of income-tested fee for the insurance bond contained within the family trust.

#### Important:

- The Centrelink assessment of the trust under the 'source test' means the value of the assets within the family trust will be attributed to Ann for an indefinite period of time. This means the standard five year rule for gifting of assets does not apply.
- If Ann invested into an insurance bond in her own name, the insurance bond will be classified as a financial investment and deeming will apply.

### Assets and income position

Investments	Capital	Income
Term deposit @ 6%	SOLD	\$0
Discretionary family trust (source test)	\$1,150,000	\$0
Shares	\$850,000	\$42,500
Accommodation bond	\$350,000	–
Age pension		\$0
<b>Total</b>	<b>\$2,350,000</b>	<b>\$42,500</b>

### Opportunities

Investors have the ability to structure their financial assets to minimise aged care costs.

# Strategy 7: Asset protection and business succession planning for retirement

## Overview

As the Baby Boomer generation move closer to retirement, we will see a large generational change throughout employment markets. This will encompass a large proportion of Generation X investors taking over the employment and business opportunities of the retiring Baby Boomers. Some self-employed baby boomers who are considering selling their business upon retirement may find this of interest.

Many small business owners fail to consider what will happen to their business if they die, have a long period of illness, suffer a total and permanent disability, or retire. They may not have plans for selecting a successor or distributing the proceeds of the business. Failure to address these issues is a common oversight amongst self-employed people and can lead to unnecessary complications over time.

Most unplanned events can be covered by appropriate insurance but generally, difficulty arises in the event of retirement. However, what is the most appropriate method of managing the retiring owner's financial interests in their business?

## Strategy analysis

**Using a buy/sell agreement:** saving capital for the purchase of a business interest via a buy/sell agreement can be complex. There are many issues to consider such as:

- ownership structure
- valuation of the business interest
- transfer of ownership upon retirement.

A regular savings plan into an insurance bond can provide business owners with some certainty that they will have a guaranteed transition of their business interests at an agreed price upon retirement. The benefit of investing via the insurance bond will cap the tax payable on earnings at 30 per cent and will not be subject to CGT upon withdrawal of the investment.

In addition, as an insurance bond, any proceeds from the investment are protected from creditors in the event of bankruptcy.

Utilising a bond as the investment vehicle will mean that the individual parties to the buy/sell agreement will have to determine the appropriate investment amount utilising their own after-tax dollars. In some situations where a buy/sell arrangement is between the owner and an employee, a sinking fund (accumulated investment fund) can be established via the owner contributing potential employee bonuses into the fund as a savings plan in the owner's name. This can provide the business owner with certainty and retention opportunities for senior employees.

## Advantages/disadvantages

Advantages	Disadvantages
Maximum tax rate of 30%	The 125% rule regarding regular savings plans and the 10 year rule (see explanation in strategy 1).
No tax/CGT payable upon capital being transferred to the beneficiary upon the death of life the insured.	Potential Fringe Benefits Tax (FBT) liability if benefits paid to existing employees via a salary packaging arrangement.
Achieve investment diversification.	Understanding the buy/sell agreement and the ownership structure.
Protection from creditors.	
Retention of high level employees.	Investment into a bond has to be with after-tax dollars.

## Tips and traps

To keep the structure simple, the business owner and life insured should be the same so that upon death, the capital is still available to the beneficiary in line with the buy/sell agreement. Make sure that you consult with a legal representative experienced in business succession to draft an appropriate buy/sell agreement.

## Case study: succession planning through bonds

Bill, aged 55, runs a small but successful automotive business in a regional Victorian town. He is planning to retire at age 65 but is concerned about the saleability and value of his business at retirement. Ken is employed as the head mechanic and has approached Bill about the opportunity to purchase the business when he retires. Bill is aware that Ken has minimal savings so has sought professional advice from a financial adviser about his business succession options.

The financial adviser recommends that Bill enters into a buy/sell agreement with Ken regarding his planned retirement. The agreement states that Bill will pay Ken an after-tax annual bonus (via PAYG so not liable for FBT) into a bond which will be structured with Bill as the owner and life insured.

This allows funds to accumulate over a period to the projected business value upon retirement. As part of the buy/sell agreement, if Ken leaves his employer, the funds will remain with Bill and Ken will have no entitlement to the funds. This will offer Bill certainty regarding an agreed future business value and know that he has locked in a future buyer, Ken.

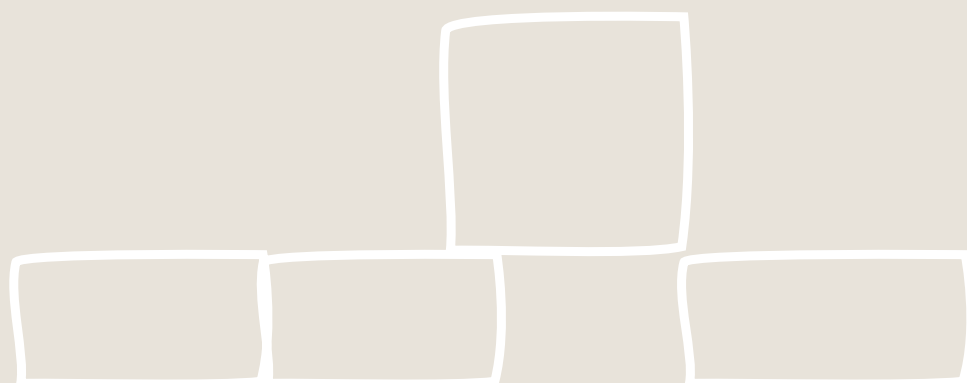
## Opportunities

The investor has the ability to accumulate assets and retain control of their investment whilst operating the business, with an agreed exit strategy upon retirement. The employee has a long-term goal and feels like they have a more active role in the business and the business owner has created a key strategy to retain senior staff.



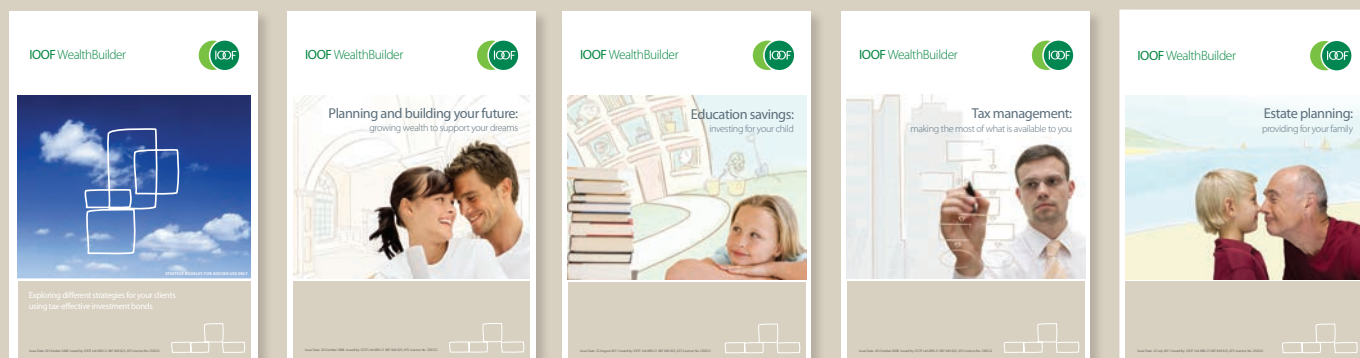
## Adviser Remuneration

Upfront Commission	Up to 3.30% (inc. GST) of each contribution
Ongoing Commission	0.44% pa (inc.GST) based on the balance of the investment account.



## For more information

This booklet should be read in conjunction with the WealthBuilder Product Disclosure Statement (PDS). IOOF has produced a series of client brochures aligned to multi-generational strategies to assist you with marketing WealthBuilder to your clients.



**To receive a copy of the PDS, or any of our client brochures, please speak to your IOOF Business Development Manager or contact IOOF Adviser Services on 1800 659 634.**

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