



Rethinking your clients pre & post retirement strategies

JUNE 2019

Centuria

Agenda – Rethinking Strategies

- 1 Centuria overview
- 2 Why investment bonds are back in focus
- 3 Investor profiles & case studies

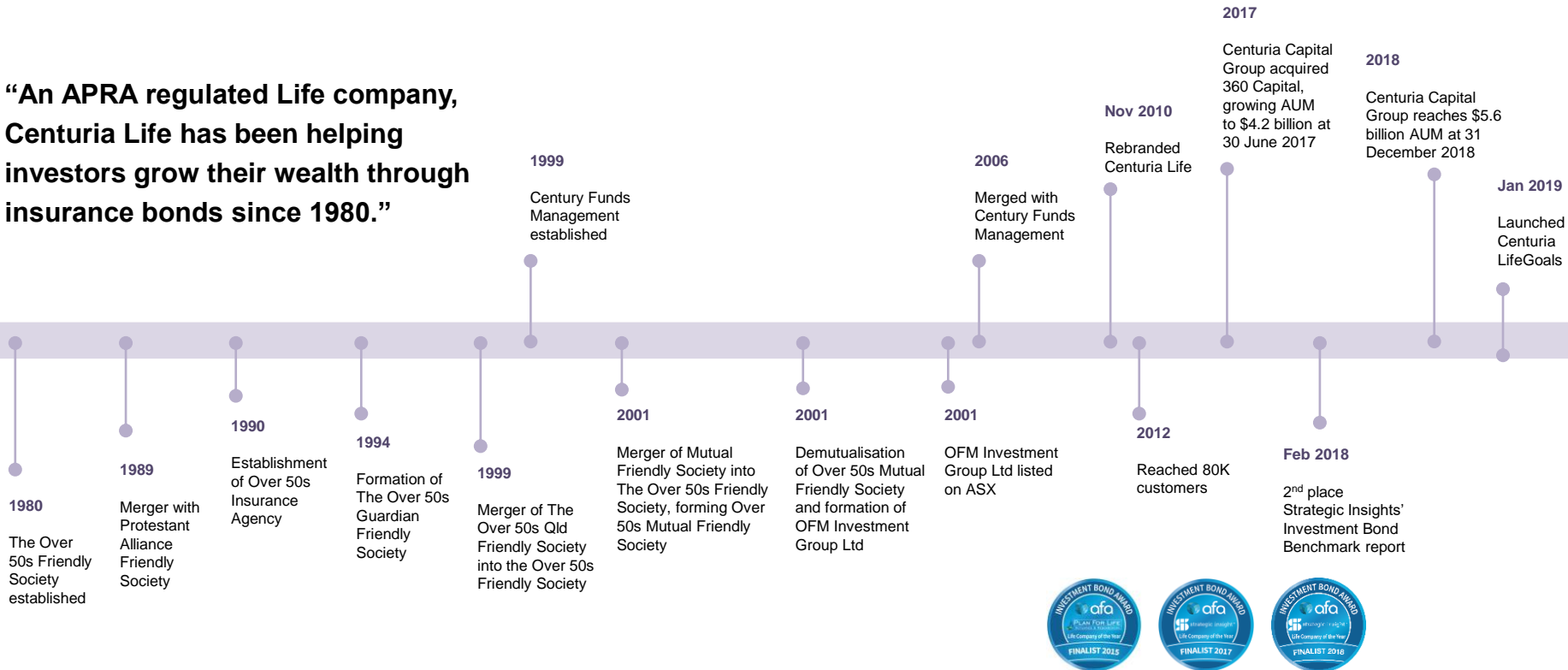


SECTION 1

Centuria Overview

Centuria Capital Group is an established ASX-listed specialist investment manager with \$6.2bn AUM

“An APRA regulated Life company, Centuria Life has been helping investors grow their wealth through insurance bonds since 1980.”

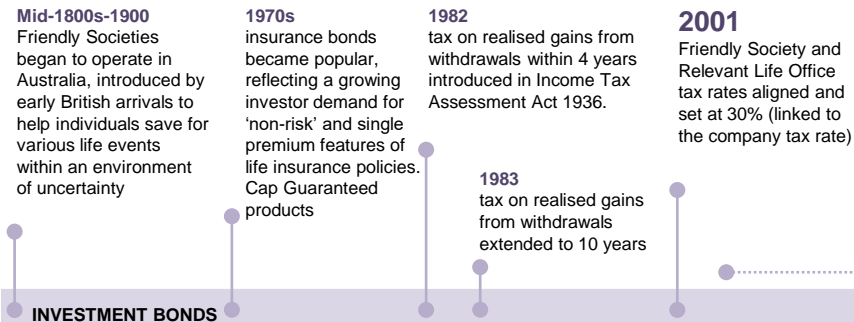




SECTION 2

Why investment bonds are back in focus

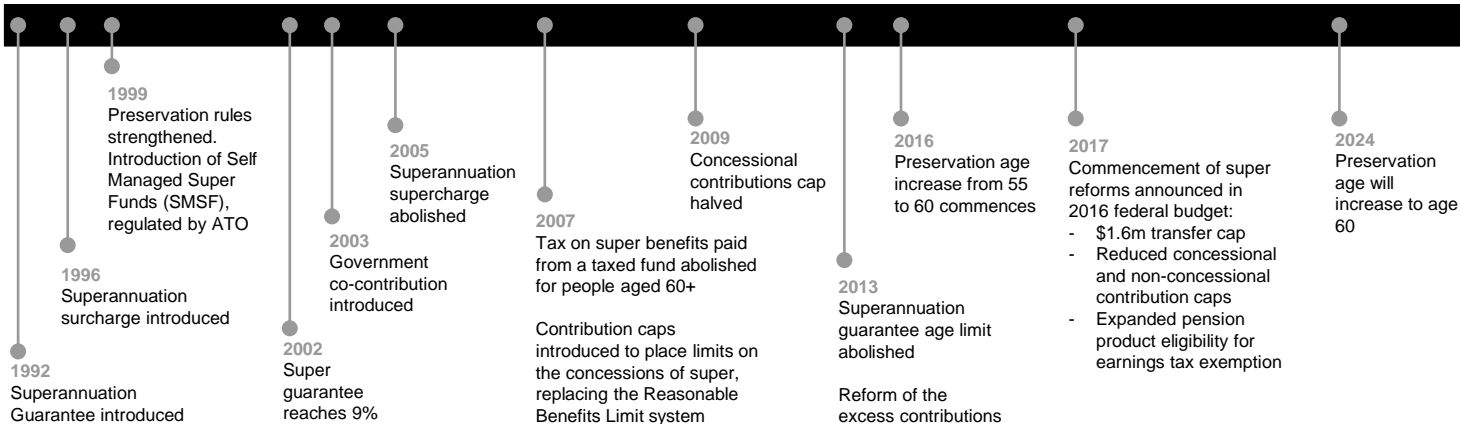
Investment bonds and superannuation over time



Investment bonds have experienced **no legislative change** for the past **18 years**

SUPERANNUATION

Superannuation has been subject to **continual government legislative changes**, leading to uncertainty



Why investment bonds are back in focus

- 1 Recent superannuation legislative changes
- 2 Evolution of bonds into contemporary investment choice
- 3 Customers demanding transparency and simplicity
- 4 Future legislative uncertainty



Tax structuring options – tax efficiency is the key



If you had **\$100,000** to invest in a fund there are 4 main tax choices...

Superannuation

Tax capped at 15%

1

Personal Investments

Taxed at marginal rate of tax (up to 47%)

2

Family Trust

Distributions to beneficiaries at marginal rate of tax (up to 47%)

3

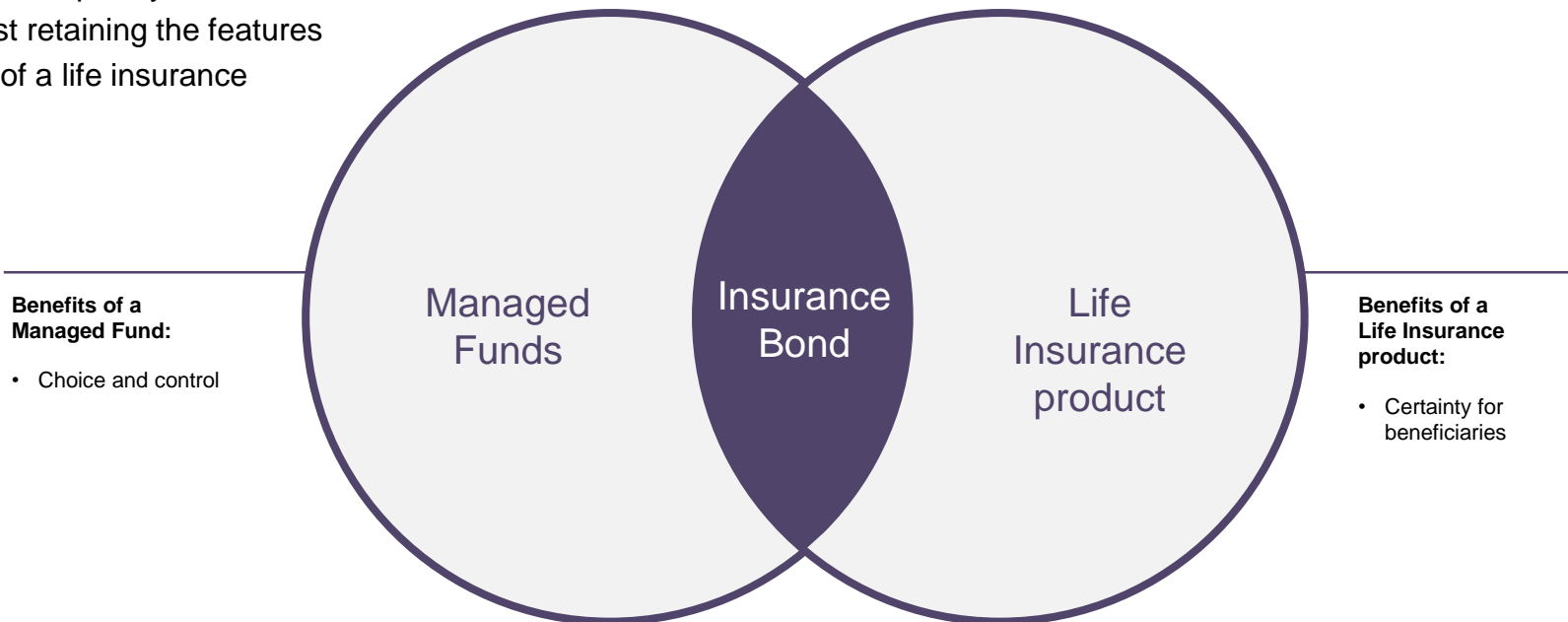
Investment Bond

Tax on earnings are capped at 30%

4

Investment bonds: the best of two worlds

Investment bonds have evolved to offer more contemporary investment options, whilst retaining the features and benefits of a life insurance policy.



Benefits of a Managed Fund:

- Choice and control

Benefits of a Life Insurance product:

- Certainty for beneficiaries

Rules v benefits explored

RULE



Tax rate



125% rule



Distributions remain within fund



Life insurance product



Assignment

BENEFIT

- Tax paid at maximum 30%; no tax payable after 10 years
- No capital gains tax on switching
- No stamp duty on transfer

- Unlimited total contributions in first year
- 125% of prior year's contribution allowed annually
- Access to funds at any time

- No need to declare earnings
- No TFN or annual tax reporting required
- Trusts & companies can invest to minimise distributions

- Bankruptcy protection
- Does not form part of the estate
- Nominate anyone as beneficiary or life insured, paid @ 0% tax

- Funds can be transferred to any other investor at anytime without the 10-year period recommencing



SECTION 3

Investor profiles and case studies

Tax and key features comparison

| | SUPERANNUATION | INVESTMENT BONDS |
|----------------------------------|---|---|
| Tax paid | 15% maximum | 30% maximum |
| Access to funds | 65 years of age or preservation age | Any time (although there may be tax consequences for withdrawing before 10 years) |
| Contribution cap (per annum) | \$25,000 concessional ¹ \$100,000 non-concessional ¹ | Unlimited in year 1 and maximum 125% of previous year's contributions thereafter |
| Contributions tax | 15% concessional rate (can be 30% for those on higher income) | Nil |
| Balance cap | \$1.6 million in pension phase ¹ | Unlimited |
| Investment choice | Yes | Yes |
| Tax return required for Investor | Yes | No (unless a taxable withdrawal is made within 10 years) |
| Transfer ownership | No | Yes |
| Estate planning | Limited dependant beneficiaries | Simple with unlimited Nominated Beneficiaries |
| Forms part of estate | Yes | No, if you have Nominated Beneficiaries |
| Death tax | Yes (for non-dependants) ² | No |

1. Superannuation concessional contributions are currently capped at \$25,000 for a financial year. The non-concessional contribution cap of \$100,000 also applies for each financial year. Superannuation is also subject to a 'total superannuation balance' cap (which may limit investors from making additional contributions). Penalty tax rates apply if you exceed either of these caps.

2. If an individual leaves superannuation to non-dependant beneficiaries, they will incur tax on the inheritance.

Investor Profiles

1 Pre and post retirement strategies

Superannuation is no longer flexible enough to be the sole retirement strategy.

2 Providing for children and grandchildren

Parents and grandparents can establish an investment and nominate beneficiaries to receive funds at a future date.

3 High net worth investors

Caps on contributions and fund balances has left many high net worth investors seeking an alternative to superannuation. Company and trust structures can be costly and complicated.

4 Goal based investors

Regular long-term investments in a tax effective structure that provides access to funds that may help you meet future costs such as a deposit on a home or your child's education.

5 Estate Planning

Nominated beneficiaries will receive funds as the benefactor declares outside of the will and the probate process.

Investor Profiles

1 Pre and post retirement strategies

Case Study: Mark & Sue

Pre and post retirement strategies

Traditional retirement planning involves maximising superannuation and using annuities. There are now a number of challenges to this strategy including the following;

- Concessional and non concessional contribution caps
- Fund balance caps
- Access to funds
- Low interest rates impacting annuity returns
- Reduced Centrelink beneficial treatment from 1 July 2019

Advisers should consider alternative options that provide the ability to accumulate funds in a tax paid structure, provide access to funds and pay a tax-free income after 10 years....investment bonds

Introducing Mark & Sue

Financial position

- They own their own home \$500,000
- Total Gross individual package \$150,000
- Less Super contributions \$25,000
- Individual after tax income \$33,882¹

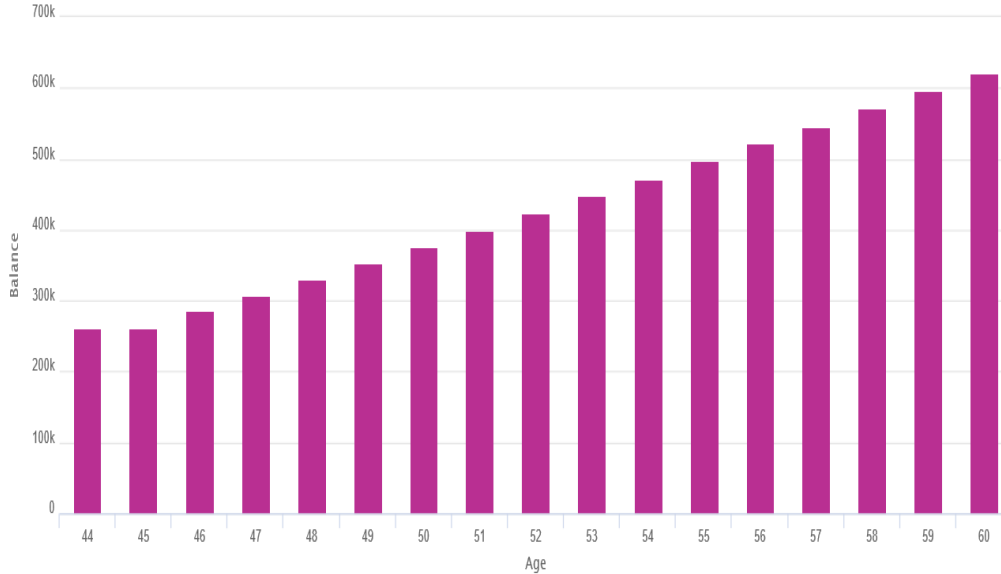
Assumptions

- Professionals, 45-year-old married couple with two children, they would like to retire at 60.
- Starting salary of \$35,000 at 22 years of age each, increased to be \$150,000 gross p.a.
- Sue, primary carer for their two children, no super contributions for 10 years (30 to 40)
- SG paid up to age 45, now increased to \$25k p.a.
- Inherit \$200,000 at age 45 would like to invest outside of super in a tax efficient way as they may need to access the funds.

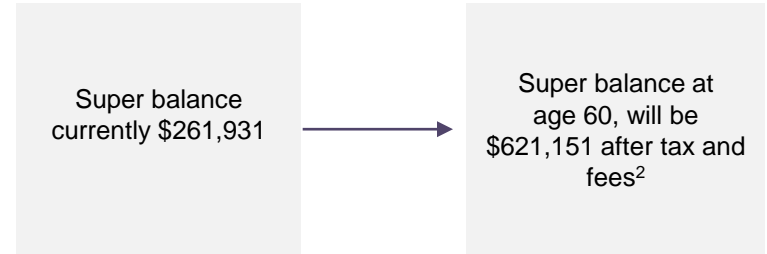


1. ATO <https://www.ato.gov.au/calculators-and-tools/host/?anchor=stc&anchor=stc#stc/report>

Superannuation growth to retirement - Mark

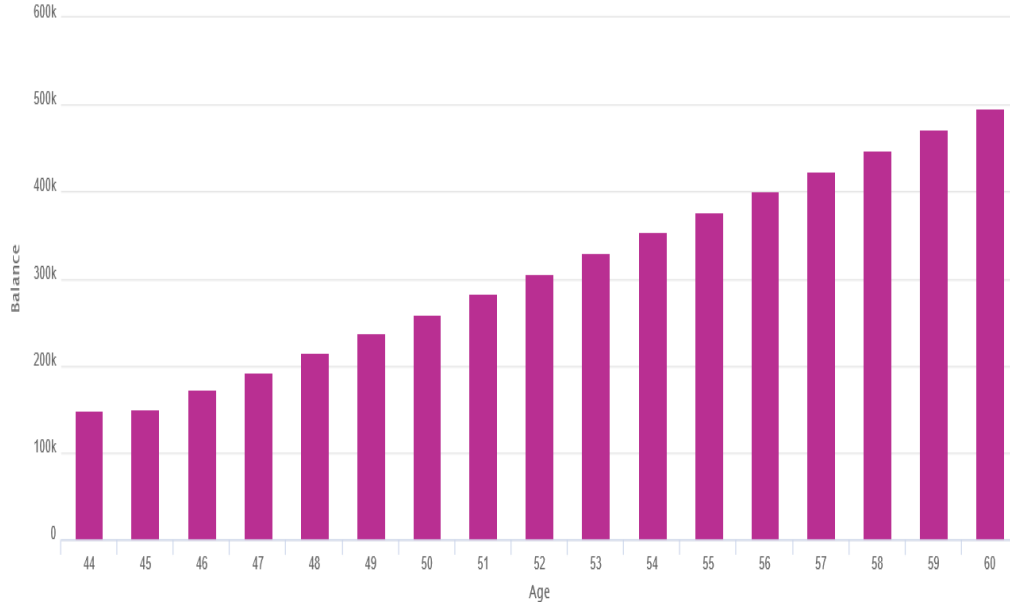


Mark's Superannuation balance



SOURCE: MONEYSMART <https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/superannuation-calculator>

Superannuation growth to retirement - Sue

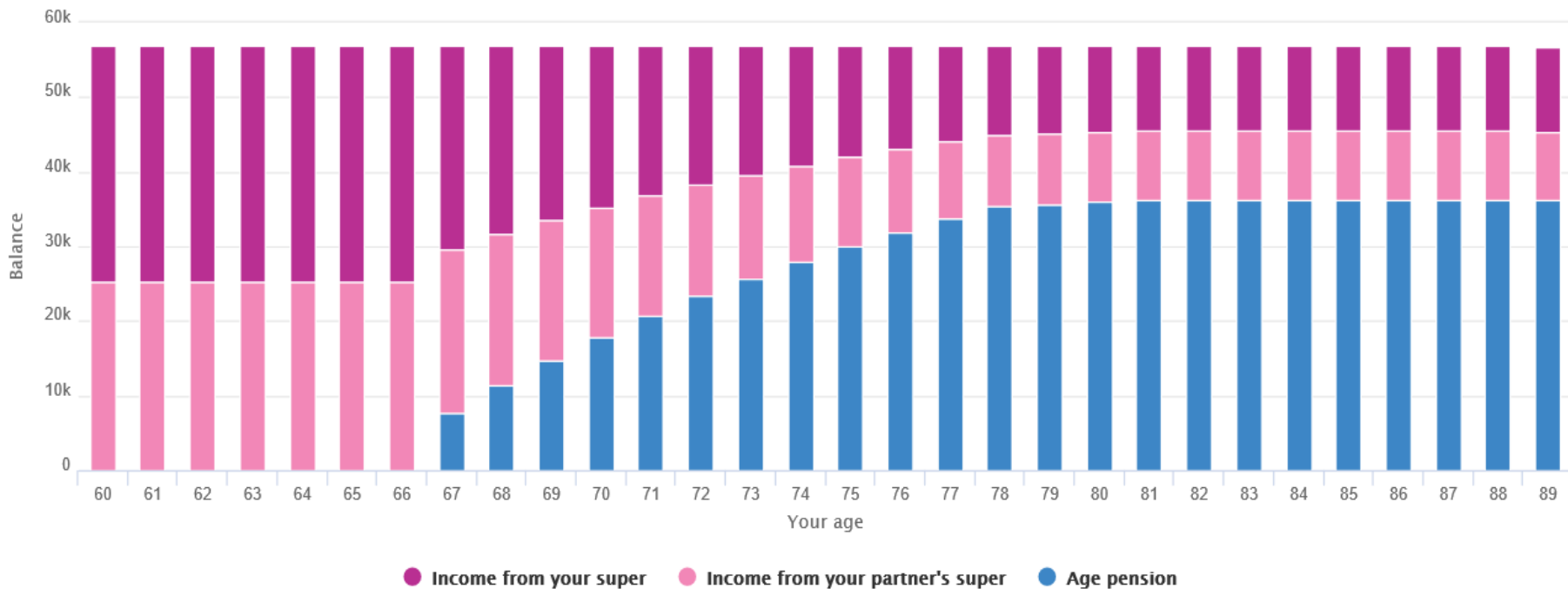


Sue's Superannuation balance



SOURCE: MONEYSMART <https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/superannuation-calculator>

Mark and Sue's retirement income will be \$56,821 per annum super only



Source www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/retirement-planner

Summary of advice so far...

Increase contributions to superannuation to maximum \$25,000 per annum

Rather than spend the \$200,000 they decide to invest the inheritance at age 45.

Commence an investment bond;

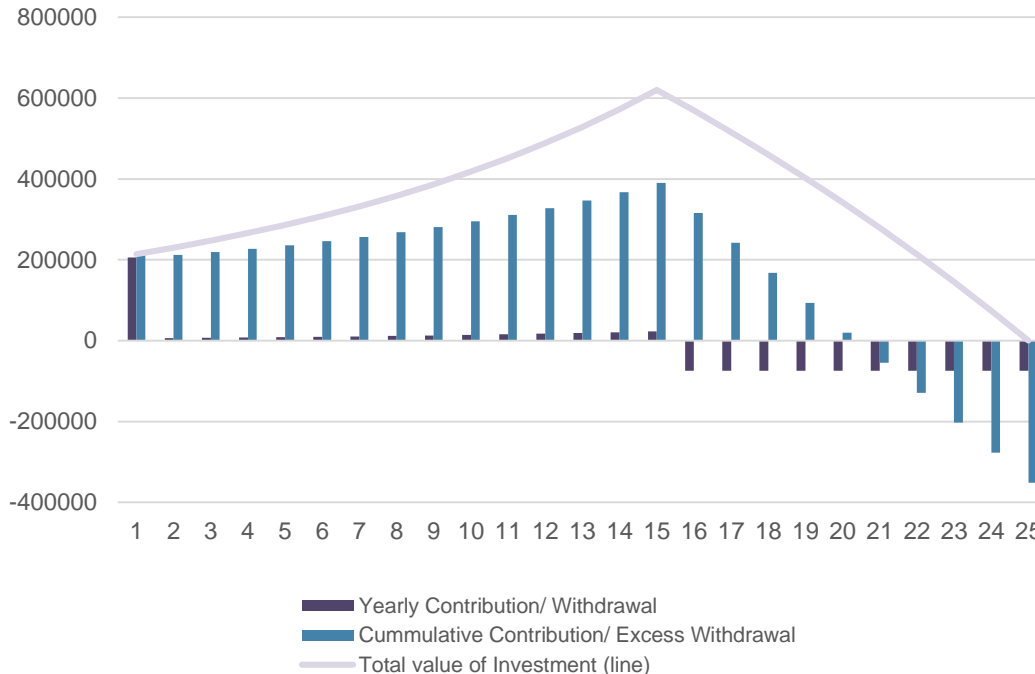
- Invest the \$200,000 inheritance in joint names, joint lives insured
- Start a regular contribution plan of \$500 per month increasing by 10% per annum (below the maximum of 125%)
- Nominate both children as beneficiaries
- Protected from any potential creditors and are accessible at any time by Mark and Sue

Retire at 60 and commence income stream from allocated pension forecast by \$56,821 by investing in a growth superannuation strategy

At the same time they commence a draw down of their bond generating a tax paid income stream for 10 years

Creating a tax paid income from an investment bond

15 years of contribution and 10 years of withdrawals under the 125% Rule



- Create a tax - paid income stream from 60 - 70 years of age
- Contribute \$500 per month for first year and increase by 10% per annum for next 15 years
- Assuming 5.18% before tax and after fees return, Mark and Sue can receive a tax-paid income stream of \$71,556 for 10 years¹ to enhance their total retirement income

1. SOURCE: CENTURIA LIFE GOALS WEALTH PROJECTION CALCULATOR

Impact of the investment bond

Scenario 1 Income in retirement

- Joint super drawdown \$56,821 p.a.
- Investment bond income \$71,556 p.a.
- Total income for 10 years \$128,377 p.a.

Upside: over double the tax-free income in the early, active years of retirement when needed most

Downside: partial pension supplement is delayed until investment value fall below the asset test threshold

Scenario 2 Minimum drawdown from pension only

- Reduce to the minimum¹ joint super drawdown \$44,710 p.a.
(which is \$12,111 , or 21% less than combined super only)
- Investment bond income \$71,556 p.a.
- Total income for 10 years \$116,266 p.a.

Upside: Extend the duration of the super assets by reducing super pension account²

Downside: same as Scenario 1

¹ Minimum pension payment factors for 2018/19 financial year of 4% or under age 65

² https://supercalcs.com.au/FSS_IncomeStream/results.aspx

Investor Profiles

2 Estate Planning

Case Study: Brian & Joan – blended family

Estate planning

Investment bonds have features that make them an ideal estate planning tool. They;

- allow the owner to appoint a beneficiary to receive the bond proceeds upon their death.
- fall outside of the estate so are not distributed according to the will, nor are they affected if the owner dies intestate
- are paid tax-free to the nominated beneficiary(ies)
- are protected from creditors
- are particularly useful for blended families

Effects of poor estate planning

- The estate could be distributed to unintended beneficiaries
- High legal fees could be incurred to collect all the assets
- Any disputes can result in lengthy delays in accessing estate proceeds
- Erosion of wealth due to tax implications, reducing the value of the estate

There are strategies that can be used to help avoid, or minimise, these consequences and get the right assets in the right hands at the right time.

Finding an effective wealth building vehicle that also provides estate protection and estate planning opportunities is key.

Modern death taxes

- **Superannuation Death Benefits Tax**
- **Ordinary Income Tax**
- **Capital Gains Tax**
- **Other Taxes**
 - - Foreign Inheritance taxes applying to Australian Assets
 - - State Stamp Duty
 - - Goods and Services Tax
 - - State Land Tax

Source: Michael Roberts, Topdocs Legal, "The Next Generation", April 2016

One solution

- Investment bonds are **tax-free** in hands of inheritor



Estate Planning

Joan (68) and Brian (73) are married, for both of them it is their second marriage

Joan has 4 children from her first marriage and Brian has 2 children from his first marriage

Joan's main estate planning issue is leaving her non superannuation assets accumulated during her first marriage to her 4 children

Joan sets up an investment bond, with her 4 children as beneficiaries. She remains the owner and life insured. If she needs the funds during her lifetime she has access to them

On Joan's death the funds are paid to her beneficiaries tax free

Without the investment bond, Joan's assets would be paid to Brian then upon his death, his two children would become unintended beneficiaries



The power of investment bond strategies

1. Tax paid investment vehicle
2. Supplementing retirement income
3. Powerful estate planning benefits

Introducing Centuria LifeGoals

A tax-effective investment vehicle aimed at helping you grow accessible wealth.

Gives you control



Tightly constructed menu & rigorous investment manager selection & review



Choice of 22 high quality investment options

Fee Transparency



Transparency of fees: 60bp net Centuria mgt fee + investment manager fee



All investment manager rebates and tax benefits are passed through to investors



Minimum investment \$500 per option

Simple to manage



Easy online application process, plus access to fund information via BoardRoom investor portal and mobile App



Technical and strategy support

Experienced



Part of the ASX-listed Centuria Capital Group (ASX:CNI)



38-year heritage in delivering returns to investors with investment bonds



Dedicated & experienced national adviser support team

Disclaimer

Centuria LifeGoals

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