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Grant Hackett
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For years now, the industry has called on the government to "stop tinkering with superannuation". When reforms were introduced – and there had been more than 30 superannuation "tweaks" for the past few decades – it was the financial planning community that was left scrambling to adjust retirement plans so as not to put their clients at a financial disadvantage.

Some have turned to investment bonds as a way to diversify client portfolios at a time when super as a retirement savings vehicle is once again under the microscope, with the government having now said it will look to double the tax rate to 30% for superannuation savings above a certain level.

In this issue, Generation Life makes a case for investment bonds as a way to future-proof retirement nest eggs.

Michelle Baltazar
Director of Media & Publishing

Tax aware investing

The role of tax awareness and optimisation.

Tax is often the largest cost a client will incur on their investment—not fees for a financial adviser, platform usage or select products. This is why when it comes to making any investment decision, it's important to be aware of the impact of tax on your client's overall investment performance. The compounding effect of this can be significant over time.

Is tax aware investing new?

Tax aware investing isn't new. Most individuals do not realise that superannuation is a form of tax aware investing. But with more than $3.9 trillion in assets predicted to be accumulated by Baby Boomers by 2030[1] and a population fast approaching retirement age, Australia's superannuation system is currently under pressure—and with that comes an opportunity for reform.

Treasurer Jim Chalmers has already signaled the federal government's intention to legislate the purpose of superannuation . The proposed objective will be to "preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way." The government has also announced the introduction of a doubled tax rate on earnings on superannuation balances of more than $3 million, raising the tax rate from 15% to 30%.

There's now an opportunity for Australians to explore complementary investment options outside of their super.

Investment bonds—historically known as insurance bonds—are a simple, tax-effective investment option that can deliver clients an additional source of income, as well as provide certainty around estate planning and wealth transfer. Financial advisers play a fundamental role in superannuation planning and are empowering clients with alternative options.

Investment bonds: A tax-effective way to supplement your clients' superannuation

Superannuation will always be considered the primary vehicle for retirement income, and there's no denying that it is a valuable and effective system. However, we know that tax and estate planning implications for superannuation are likely to change over time.

Investment bonds have enjoyed stability in their tax legislative framework, having remained largely unchanged since the tax rate was aligned to the current company tax rate of 30% in 2001. In contrast, there have been over 30 major changes to superannuation-related legislation and related government policies since the introduction of compulsory superannuation in 1992.

Unlike superannuation, where a total balance cap might restrict your client's ability and willingness to make additional contributions, there is also no limit on how much can be invested in an investment bond upfront. And your client can access their funds at any time, regardless of their age.

Investment bonds are a stable, tax-effective solution that offer flexibility, control and a range of investment options to suit your client's lifestyle needs.

Earnings have been traditionally taxed at a maximum effective rate of 30% instead of your client's personal marginal tax rate.

To compliment returns from superannuation, Generation Life also offers a regular income withdrawal facility for clients seeking a consistent and regular income stream. This is particularly helpful for a client who wants to fund an early retirement and when access to superannuation and a government pension is not yet available to them.

Innovations through Generation Life's tax optimisation process

Generation Life's tax optimised process can significantly reduce the impact of tax on your client's returns, by reducing an investment's tax assessable earnings by offsetting capital investment losses against income—bringing the tax rate down to as low as 12-15% over a 15-year period[2].

Through a disciplined tax aware approach to trading when we sell investments, such as shares, our process ensures that we effectively manage our clients' portfolio to deliver the best tax outcome. This is an important consideration for a client who may be paying up to 47% marginal tax rate on direct investments or even utilising a bucket company.

The compounding effect of this process over time can be significant. The longer you are invested, the better the after-tax outcome.

Advising with confidence

Behind every great sportsperson in history is a great coach and similarly, when it comes to finances, clients should enlist the help of an expert to maximise their returns.

With a great financial adviser, clients can produce much better performance in terms of overall wealth and build discipline in setting up regular contributions. Financial advice serves as almost a checklist for clients on everything they need to do to maximise after-tax performance, determining the right products and structures for their individual needs, and helping them to plan with confidence.

As the pioneer of Australia's first truly flexible investment bond, Generation Life has been at the forefront of providing innovative tax-effective solutions since 2004. With over $2.8 billion already invested in our investment and estate planning products, we are trusted by advisers to help clients grow their wealth and meet their financial goals for the future. **FS**

The quote

Similar to a coach, a great financial adviser is key to producing better financial performance and the confidence to invest.

Watch the video on www.fsitv.com

1 Generation Life 'Locking in the next Generation' by Core Data 2022.

2. Capital losses refers to losses realised on the disposal of investments that are treated as a revenue loss for tax purposes. Indicative forecast effective average tax rates – these represent the estimated forecast average annual tax as a percentage of earnings for each 12-month period over a forecast period of 15 years. Actual tax amounts payable are not guaranteed and may vary from year to year based on the earnings of an investment option.