FINANCIAL STANDARD GUIDE TO

Tax Aware Investing

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Tax is often the largest cost a client will incur on their investment. This is why when it comes to making any investment decision, it's important to be aware of the impact of tax on your clients' overall investment performance.

At Generation Life we know that tax awareness is essential to maximising investment returns and we're passionate about continuing to innovate to increase investor returns and lower tax.

Our proven and market leading tax smart approach allows us to significantly reduce the impact of tax on your clients' returns. The compounding effect of reducing your clients' tax liability consistently over time, helps your clients' reach their financial goals sooner.

I hope you enjoy this publication and that it sparks some important conversations with your clients that the impact of tax can have on their overall returns and how Generation Life can help generate tax alpha for your clients. Afterall, at Generation Life we are focused on continuing to offer client strategies that provide more value to you and your clients.

Grant Hackett OAM
Chief Executive Officer and Managing Director
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Outthinking today.

Contents

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What is tax aware investing?

Investment returns and investment costs – two key factors that tend to be focal points for investors, and in many cases, financial advisers. But another critical factor is often overlooked: the impact of tax.

Australia has relatively high rates of personal tax. Personal tax revenue accounted for 42% of all tax revenue collected in Australia in 2019 – above the OECD average of 23%[1].

The tax impost affects all Australians. But it can be particularly devastating for investors, often representing the single largest cost an investor pays.

Yet many investors feel powerless to reduce the impact of tax. Mention tax-friendly strategies, and in most cases, dividend imputation, trusts, ETFs and superannuation come to mind.

There is a better solution. It is possible to attack the tax problem head-on, and the answer lies with tax aware investing.

How does a tax aware approach work?

A tax aware approach joins the dots, and reduces the impact of tax by proactively managing and minimising tax through a range of implementation strategies.

In many cases, these strategies also help to lower transaction costs.

The reward for investors is higher after-tax returns without the need to take on additional risk. As less tax means more to invest, the tax savings compound over time, helping investors reach their financial goals sooner.

1. *Revenue Statistics in Asia and the Pacific: Key findings for Australia, OECD, 2022*

What is tax aware investing?

What do tax aware investments look like?

Many financial advisers may be surprised to learn that tax aware investing is not a pipe dream, nor is it a niche product or expensive set of tax structures only available to high-net-worth investors.

Tax aware investments have been available in Australia for many years through investment bonds. But they have undergone significant change – making now the time to rethink everything you know about investment bonds.

Investment bonds – an exciting revolution

Investment bonds have always provided a tax-effective strategy to grow wealth, with tax on investment income capped at a maximum of 30%. This delivers improved after-tax returns with no additional investment risk.

The new breed of investment bonds continue to deliver a tax-effective solution for building wealth. But the opportunities go much further.

Today's investment bonds are using exciting new strategies to reduce tax – often with some product issuers able to reduce the effective long-term tax rate to less than 15% for growth orientated investments.[2] In this way, investors can enjoy the best of all worlds:

- A diverse portfolio spread across a variety of asset classes
- Enhanced after-tax returns, deepening the strength of compounding
- The ability to invest to achieve a variety of personal goals
- New options for estate planning, and
- Flexible access to their investments.

How tax can erode returns

An investor on the top marginal tax rate can lose up to 47% of portfolio returns to tax and Medicare.

As a guide, an investor who earns a pre-tax return of 5.0%p.a. on a managed Australian share fund may have their after-tax return whittled down to 3.1%p.a., even after allowing for dividend imputation credits.

In effect, 1.9% of the original before-tax 5% return – almost 40% – is lost to tax[3].

Source: Generation Life

2. Generation Life

3. Stop your investment returns being consumed by tax, Generation Life, 2020

Why tax aware investing matters

Tax aware investing allows financial advisers to deliver on a promise of value-added service.

Australians can access a wide range of DIY investing platforms. This is driving the need for financial advisers to give their clients value-add strategies in wealth creation and protection.

It's about helping your clients get more from their money, sharing expert insights that provide the 'wow' factor – and making you an indispensable partner in your clients' journey of wealth maximisation.

This is where tax aware investing can play a vital role for your clients – and your business.

Understanding the value-add of tax aware investing

As PwC notes, "Tax is generally regarded as a second-order issue in most investment arrangements"[4].

Yet tax efficiency deserves more attention because efficient tax management can add significantly to an investor's returns.

Despite the potentially devastating impact of tax, investment performance is typically reported on a pre-tax basis and is measured against pre-tax benchmarks.

The argument has always been that tax is paid at the entity level rather than the investment level, and depending on the type of entity (individual, super fund and so on) the tax treatment of returns can be very different.

More broadly, managed investments aren't generally set up to deliver tax aware returns.

This matters because advised investors can experience a significant, and often unexpected, gap between an investment's reported returns and their personal after-tax returns.

4. Ten questions to ask your investment manager and custodian on tax, PwC, 2016

Why tax aware investing matters

After-tax investing is not a new concept. In the United States for example, the Securities and Exchange Commission has mandated that mutual funds must disclose fund performance on an after-tax basis to help investors understand the magnitude of tax costs and compare the impact of taxes on the performance of different funds.[5]

A drag on returns

Tax can take a massive bite out of returns – close to 50% for a high income earner in Australia. This makes tax a tremendous drag on an investor's returns over time, with an accompanying impact on compounding that can hold an investor back from reaching their full wealth potential.

By overlooking the impact of tax, investors can be left frustrated that their portfolio growth isn't living up to expectations. Despite seeing strong returns on paper, investors can face a high tax bill that not only dials down much of the forward progress made by returns, but also proves a drain on personal cashflow.

For advised investors, the impact of tax has the potential to undermine the relationship built up between the adviser and their client.

Tax aware – a fresh perspective

For many years, superannuation has been the go-to investment to maximise after-tax outcomes. But it can also bring significant drawbacks, including lack of accessibility. And as we have seen numerous times, superannuation is subject to legislative risk that can see favourable tax concessions disappear or be restricted, with very little warning.

This is driving a growing need to find alternative solutions that generate superior after-tax returns.

A tax aware investment approach works differently. It embraces strategies outside of superannuation to deliver the same or better after-tax returns, without the prolonged lock-up periods.

An adviser who can help investors understand the impact of tax – and follow through with solutions that minimise this impact – is truly giving their clients value-added strategies for wealth building.

5. Securities and Exchange Commission - Final Rule: Disclosure of Mutual Funds After-Tax Returns

How tax aware investments work

A tax aware investment approach has two clear goals – to minimise tax drag and maximise after-tax wealth for investors.

To understand how investment bonds are so well-placed to deliver tax aware investing, let's take a deep dive into how they work, and how the product issuer can deploy strategies to reduce the impact of tax.

Investment bond deep dive

Just like superannuation, an investment bond is essentially an environment to hold assets. Also like super, the investment bond structure is bound by a set of rules. Many of these rules specifically involve tax, and the tax treatment of investment returns and assessable income within the investment bond environment.

How tax aware investments work

Investment bonds do not have restrictions on the maximum value of the investment. That's quite different from superannuation, where balance caps can limit your ability to make additional contributions.

In another nod to super, investment bonds are a tax-paid investment. This means investment income is taxed within the fund – it does not form part of an individual investor's personal tax return (unless withdrawals are made within the first 10 years of the investment). This is a plus for investors as it eliminates the need to personally track and report taxable income from an investment bond.

From here, the similarities with superannuation end.

Unlike super, where personal contribution amounts are capped by strict (and relatively small) annual limits, investment bonds provide greater flexibility on how much an investor can grow their investment each year.

Importantly, investment bonds do not have restrictions on the maximum value of the investment. That's quite different from superannuation, where balance caps or increased tax on balances over a certain value can limit your ability to make additional contributions[6].

The importance of the 10-year period

Investors who hold an investment bond for at least 10 years can receive their entire investment, including additional contributions and returns, tax paid.

That's worth thinking about for a moment. Withdrawals after the tenth anniversary of an investment bond being established will be free of any personal tax, in the investor's hands. This is likely to be a very compelling feature for many investors.

6. Making the most of the '125% opportunity', Generation Life, 2020

How tax aware investments work

Recapping the 125% rule

While there are no limits on the amount you can invest in an investment bond in the first year, rules do apply to subsequent years if you don't want to re-set the 10-year period.

Contributions in subsequent years can be worth up to 125% of the previous year's contributions without re-setting the 10-year period.

The beauty of these additional contributions is that from a tax perspective, they are treated as if the money was invested on the same date as the initial contribution. So additional contributions don't have to be invested for the full 10 years to be included as part of the 10-year period.

How tax aware investing is achieved

So far we've looked at the key features of investment bonds – some of which financial advisers will be familiar with.

What's less well-known is that the new breed of investment bond providers go a lot further. Some of the more innovative providers are using a disciplined approach specifically designed to reduce the effective long-term tax rate.

Investment bonds – an ideal structure for tax aware investing

Let's take a closer look at what makes investment bonds the ideal vehicle to adopt, and succeed with, a tax aware approach.

The investment bond structure – very tax-friendly

As we've seen, investment bonds are 'tax-paid' investments. Tax on investment income is paid by the product issuer at the maximum rate of 30%.

This is the maximum rate of tax applicable to investment income or capital gains. However, the actual rate can be lower depending on the level of imputation tax credits generated from the underlying investments (for example, from Australian and global shares) and can be further reduced with more efficient capital management such as the tax aware strategies Generation Life adopts.

How tax aware investments work

A single focus

In a traditional managed fund, the investment manager typically has to balance the interests of many different investors – all of whom can have different, and potentially competing, tax interests.

When an investment bond adopts a tax aware approach, the product issuer is able to focus on the tax position of the fund as a whole with certainty of the tax rate paid by all investors (with the product issuer as the single tax paying entity). This makes it easier to determine the most tax-effective strategy, and from there, achieve tax minimisation.

Tax-effective portfolio management

The new breed of investment bonds go far beyond the tax savings delivered by the basic investment bond structure.

Today's investment bond provider can substantially cut the effective rate of tax paid by the fund. In some cases, the effective long-term tax rate can drop to as little as 10%[7], which is well below even the 15% that applies to superannuation funds.

This level of tax reduction can be achieved through clever asset management. In particular, the investment manager and the product issuer will carefully weigh each investment decision through the lens of the most tax-effective outcome. So, no matter whether an asset is being acquired or sold, the investment manager is always mindful of achieving the most tax-efficient result.

Ability to offset capital losses against income

Unlike individual investors and companies, investment bonds enjoy special tax rules. These can be especially beneficial from a tax aware perspective. As a guide, investment bonds can offset capital investment losses against income to lower assessable income. This is very different to a direct individual investor, superannuation or company investor where capital losses can only be offset against capital gains.

7. Indicative forecast effective tax rates. The effective average tax rates 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.

How tax aware investments work

A disciplined approach to trading

A tax aware investment bond provider always maintains a focus on the best possible outcome when the time comes to sell investments which results in a better after-tax outcome for the investor.

Less reliance on third party investors

Where possible, a tax aware investment bond provider will invest directly rather than through a pooled structure such as a managed fund. This can be a key advantage, giving the investment manager greater opportunities to make trading decisions based on a tax aware focus. This combines the power of a professional investment manager and maximises your after-tax outcomes.

Compounding returns

The impact of tax is a key reason why individual investors often struggle to match the headline returns recorded by various asset classes in their personal portfolio. Moreover, when more tax is paid, there is less left over to invest.

Tax aware investing swings the pendulum in an investor's favour. As less tax is paid, more money remains invested, and the compounding effect of this additional money can significantly work in an investor's favour over time. As an example, if you reduce only 1% of your earnings a year that are subject to tax, it is estimated that you will have over 85% in extra return in a 15-year period using a global shares portfolio.[8]

Easy access

Many Australians see super as one of the last remaining tax-friendly investments available. But a key downside of super is strict conditions of release.

However, when investors buy into an investment bond, they are not locked in until preservation age or retirement. Funds can be withdrawn as needed at any time. That said, the tax advantages are maximised if held for at least 10 years.

Worth a closer look

With no restrictions on who can invest and how much can be invested, investment bonds could provide the tax aware investment opportunities that you, and your clients, have been looking for to maximise wealth.

8. Using the average annual MSCI World ex-Australia (with net dividends reinvested) in Australian dollars Index return over the 10 year period to 31 January 2023.

Who can benefit from tax aware investing?

Tax aware investing has the potential to benefit a broad cross-section of an adviser's client base.

High income earners

The ability to redeem an investment bond tax paid after 10 years is highly attractive for high income earners, and it explains why this type of investment is often favoured by those on high marginal tax rates.

As there is no distributable income, the investor doesn't include any returns from the investment bond in their assessable income, even if the investor is invested through a trust. The exception can be if a withdrawal is made within 10 years from the date of commencement of the investment bond. If this happens, the investor may be entitled to claim a 30% tax offset relating to the assessable income part of the withdrawal proceeds.

Through a tax aware approach, the compounding returns on an investment bond can be significantly higher relative to other investments, making this an attractive wealth maximising strategy for investors on higher marginal tax rates.

Investors facing cap restrictions and/or condition of release rules

As Australians continue to build wealth through super, a growing number of investors may become frustrated by the limitations around annual super contributions and the lack of accessibility.

Additionally, the federal government has announced a proposed doubling of the tax rate on earnings on total superannuation balances of more than $3 million, from 15% to 30% effective 2025[9].

Investment bonds offer a tax-effective alternative for investors impacted by the restrictions of superannuation. Combined with a tax aware approach and unique tax rules offered by some product providers, an investment bond can have an effective tax rate well below 30%.

9. Better targeted superannuation concessions, Consultation paper, 31 March 2023

Who can benefit from tax aware investing?

Families investing for the needs of children

Investment bonds can offer families a low-tax way to invest for the future needs of children, including education expenses.

The investment bond environment is particularly appealing as an investment vehicle for children's needs as children can face income tax rates on investments as high as 66%. Moreover, investment bond owners can select the age at which ownership of an investment bond is transferred to a child, potentially allowing the investment to be used to fund tertiary education costs, and other life events such as a first car or home deposit.

Australians planning for the next generation

Some tax aware investment bonds allow investors to pass on their investment – tax-effectively – at a defined future date. As with superannuation, investment bonds can be passed on to a nominated recipient, providing a low-cost, flexible estate planning tool.

Additionally, as investment bond nominations can sit outside of a will, they can be an attractive option in situations where bequests could be challenged, as may be the case with blended families.

Retirees seeking tax-friendly income

To complement returns from superannuation, tax aware investment bonds also offer 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.

The common thread is that today's investment bonds come with greater choice and variety. The range of underlying investment options is wide, with choices that span property, shares, fixed interest or cash.

What is especially exciting is that it is typically possible to move between investment options without triggering a personal capital gains tax event, and the transfer of ownership without triggering a capital gains tax event is permissible within certain criteria.


generation life
Tax is the new alpha
At Generation Life we're proud to introduce our Tax Optimised investment series, the pinnacle of tax aware investing.
Our innovative series of investment options can help you reduce your clients' tax and increase after-tax performance without taking on any additional investment risk.
genlife.com.au

Keep more investment returns through the evolution of after-tax returns

Tax can be one of the biggest costs associated with any investment, but is often an after thought in a world of headline grabbing pre-tax returns. Below are four ways in which we reduce the tax paid on investments by applying our unique tax aware approach:

- **Unique investment bond structure**
- **Disciplined approach to trading**
- **Reduce the impact of other investors**
- **Compounding returns**

Generation Life's market proven Tax Optimised investment series can be accessed through the investment options available as part of our investment bond product offering.

Learn more about the Generation Life Tax Optimised investment series at **genlife.com.au/tax-optimised-series** or call **Felipe Araujo, Executive Director at Generation Life on +61 447 593 351.**

Outthinking today.

Featurette: How tax aware investing can achieve a variety of goals

Tax aware investing gives advisers a new way to help their clients achieve their goals.

All advised investors want to earn high returns. What many fail to plan for is the impact of tax on investment returns. Through a tax aware approach, an adviser can give their clients two key advantages – superior long term returns through reduced taxation costs, plus the benefit of lower transaction costs.

These benefits make tax aware investing ideal to help clients tick off a variety of goals while also enjoying the benefits of the investment bond structure. Some of the key goals that can be achieved with a tax aware approach are outlined below.

Reducing the impact of tax

Part of the appeal of an investment bond is that it is a "set and forget" product from a tax perspective. Earnings on the investment bond's underlying investments don't have to be included in an investor's tax return which simplifies a client's tax circumstances. As such, this can allow investors to focus tax-planning on other areas, secure in the knowledge that their investment bond is tax-paid.

While the 30% tax rate applicable on investment income within investment bonds has traditionally been a point of appeal to investors on a high marginal tax rate, a tax aware approach can further trim the investment bond's tax impost to considerably below 30% – potentially 15% or less. This enhances the appeal of an investment bond to a broader group of investors including those with a marginal tax rate below 30%.

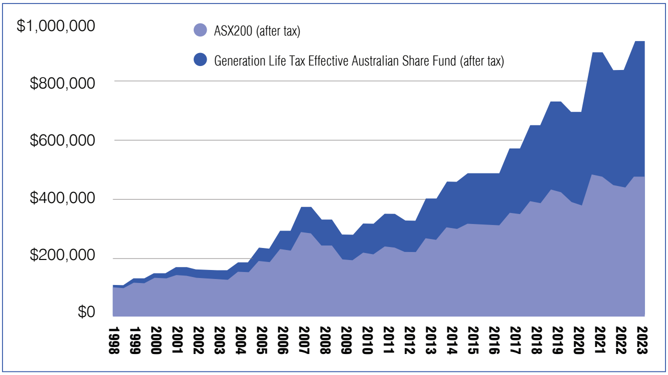
Featurette: How tax aware investing can achieve a variety of goals

Boosting compounding returns without more risk

The more that's invested, the greater the magic of compounding returns. As tax aware investing aims to reduce tax outflows, more funds remain invested in an investment bond to grow through annual returns. Over time, the differential of a tax aware approach can be significant.

Analysis by Generation Life shows that an individual investor on a 47% marginal tax rate (includes Medicare levy) can grow an Australian share portfolio by an extra 56% over a 20-year period when the long term average tax rate of investment returns can be lowered to 10%.

Back-tested performance of a $100,000 investment



Source: Generation Life
Based on back-tested strategy for a 21-year period to 20 May 2019 and then the after tax and fees return of the Generation Life Tax Effective Australian Shares Return from 20 May 2019 to 31 December 2022 on an after tax and investment management fee basis. Assumes index investment management cost of 0.16% pa and Generation Life Tax Effective Australian Share Fund investment management cost of 0.54%pa. For illustrative purposes only. Compounding returns assuming reinvestment. Past performance not indicative of future performance. Assuming a marginal tax rate of 47% (including levies) when investing directly versus tax rate of 30% in the investment bond optimised for tax. Back-tested performance is not an indicator of future actual performance. Back-tested strategy performance returns are provided for illustrative purposes and reflects hypothetical historical performance and assumptions which may or may not be tested and subject to loss.

Featurette: How tax aware investing can achieve a variety of goals

Tax-effective estate planning

It's not just about returns, it's about the ancillary benefits such as intergenerational wealth transfer strategies the investment bond can provide.

Generation Life Investment Bonds offer flexible estate planning strategies for an even stronger bond between generations, to leaving a legacy and maintaining a strong family unity.

Investment bonds can be a cost-effective, tax-effective and convenient way to pass on wealth to dependants and others, with minimal fuss.

Investment bonds have features that can be used in conjunction with, or as an alternative to, conventional estate planning tools – such as a will, a testamentary trust (for future gifting and for making intergenerational wealth transfers), and superannuation.

An investment bond can be structured as a non-estate asset that can by-pass probate so that it doesn't form part of the public domain, and can ensure that clients' wishes are adhered to.

Financial advisers play a crucial role in ensuring their clients' wishes are met and the next generation is well looked after through financial advice to help maintain and protect the inheritance throughout the next generation's investment journey.

Potential costs of tax aware investing

There are costs and other characteristics associated with investment bonds that advisers need to be aware of.

Investment fees

Investment bonds are a type of managed investment, and so come with fees charged by the product provider. The fees not only vary between providers, the total cost to the investor can also depend on the underlying investments chosen.

Tax

Investment income is typically taxed at a maximum of 30% within an investment bond structure. A tax aware approach aims to reduce this tax impost through a variety of strategies, and while this can potentially see the tax applicable to returns fall to as low as 10% or less[10], investment bonds are not a tax-free investment.

Transaction costs

By reducing asset turnover through less frequent trading of investment assets, a tax aware approach can reduce transaction fees, though there will inevitably be some degree of transaction costs such as brokerage fees.

Impact on an investor's cashflow

An investment bond does not distribute returns to investors. Instead, returns are captured within the investment bond and reinvested. Investors need to consider how this can impact their cashflow. It is possible to make withdrawals within the 10-year period, and while these may be included in an investor's assessable income, they will also attract tax offset benefits.

10. Indicative forecast effective tax rates. The effective average tax rates 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.

Case study 1: Estate planning

A place in every adviser's toolkit

Esther Althaus, financial adviser with Perspective Financial Services, has embraced investment bonds in her practice, saying: "Investment bonds definitely have a place in every financial adviser's toolkit when used appropriately for each client's circumstances."

Althaus explains: "I particularly like that investment bonds can be another tax vehicle, or alternative tax environment, which can be highly useful for clients with a marginal tax rate of 30%-plus or for those looking beyond superannuation."

Nonetheless, she says the appeal is not always about the tax-paid aspect of investment bonds: "This is a product that can play a key role in estate planning as it can be structured in many ways to be sure the money goes to the right people at the right time."

As a guide, Althaus says: "Clients can often have more money than they'll need in their lifetime. By age 65 for instance, they know what their life looks like, but they're not necessarily ready to hand over their money to the next generation."

"In this circumstance, investment bonds can be set up in a way that I describe as 'intergenerational bridging finance', giving the client control over who receives the money and when. It's very reassuring for clients to know that they still retain control – if they need the money they don't have to ask. But it breaks the traditional cycle where people may not receive an inheritance until they are aged in their 70s themselves."

Case study 1: Estate planning

One area where Althaus sees investment bonds being used to great effect is allowing grandparents to leave something directly to individual grandchildren.

"Grandparents are living a lot longer these days, and many form close relationships with their adult grandchildren. This can drive a desire to ensure each grandchild receives an inheritance in their own right – and it's something that investment bonds work very well for," she says.

"More broadly, investment bonds can be a useful tool for situations where clients may want to segregate funds."

Althaus admits she is excited about investment bonds, and has used them in her own portfolio to get a true feel for how they work.

She says: "I would absolutely recommend other financial advisers to go back and have another look at investment bonds."

"Being a good adviser is all about being familiar with different products on the market, and offering your clients competitive, contemporary solutions. If you can't do this, another adviser will."

For advisers considering investment bonds for their clients' needs, Althaus suggests comparing between product providers.

"We work with an investment bond provider that delivers outstanding access to compliance and technology. What matters though is that advisers consider why they are using investment bonds, and decide which provider has the best products for the solutions you are aiming to create for your clients," she says.

Case study 2: Tax aware investing

"A well-deserved place in portfolios"

Claire Williams, director and senior financial adviser with Gild Group, explains why investment bonds are playing a key role in many of her clients' portfolios.

A financial adviser since the late 1990s, Williams says she has seen investment bonds enjoy a resurgence as providers bring "more robust investment choices" including ESG options, that "reflect what the market is looking for". More broadly, Williams is a fan of the tax optimisation of investment bonds, which is driving improved outcomes and flexible choices for her clients.

Williams explains: "Investment bonds have been available for a long time but they are really coming of age, particularly with those providers who are at the forefront of change."

"They are a clean, clear, tax effective investment that is managed on behalf of the client to make their life easier."

Nonetheless, Williams says she typically has to explain investment bonds to her clients.

"I encourage clients to think of investment bonds as a tax vehicle – like superannuation, but under a different regime. Investors benefit from tax savings, plus control over how their money is invested – yet without their capital being locked away for what can be many decades depending on the client's age," she says.

Case study 2: Tax aware investing

A key point of difference of investment bonds is that they come under the Life Insurance Act, which "hasn't been changed in over 20 years", according to Williams. She adds: "That's very different from our superannuation regime, which is regularly changed."

There is also a valuable element of tax optimisation.

"As investment bonds are tax paid, it removes the need for investors to address investment bonds in their tax return (assuming no withdrawal is made within the 10 year period), which simplifies that section of their portfolio," she says.

Education funding continues to be a popular use for investment bonds, with Williams saying: "Clients can put in up to 125% of the previous year's investment, so it allows parents to add more as their income grows. After 10 years, the investment can be cashed in tax-paid. Of course, no parent knows what their two-year-old will be doing by age 15, and the beauty of investment bonds is that funds can be withdrawn earlier with the benefit of a 30% tax offset."

Investment bonds can also be used as a source of funding to retire early.

"I have clients aged in their 40s, who have sold a business for a large sum. They want to use this money to enjoy an early retirement but they are many years away from being able to access their super. That's where an investment bond can be so effective, providing a vehicle that allows the person to retire at, say, age 50," Williams explains.

"When it comes to estate planning, some beneficiaries can be in greater need than others, and an investment bond can cater to this. Importantly, as an investment bond can be structured to sit outside the will and probate, the cash can be released far sooner."

The upshot according to Williams, is that investment bonds are "a really flexible product" with a variety of uses; "They're not perfect for everything, but investment bonds can have a well-deserved place in portfolios spanning every age and life stage."

Glossary

Tax aware investing is a strategy designed to minimise the tax impact of investment decisions. It involves selecting investments and making trades with an eye towards reducing the tax applied to investment returns. To understand tax aware investing, we've provided a glossary to help advisers be familiar with the terminology used in this field.

10-year rule: A rule that removes the need to declare any assessable income on any withdrawals from an investment bond if it is held for 10 years or more.

125% rule: A rule that allows an investor to contribute up to 125% of the previous year's contribution without triggering a reset of the 10-year rule.

Capital gains tax: Investors do not attract any personal capital gains tax on withdrawals or when switching between investment options within an investment bond.

Estate planning: Investment bonds can provide certainty and flexibility for estate planning, allowing investors to control how and when their wealth is passed on.

Diversification: Today's investment bonds make diversification possible by offering a wide choice of underlying asset classes from fixed interest to property and Australian and international shares.

Initial investment: The minimum upfront capital will vary between investment bond providers but it can be as low as $1000.

Investment bond (also called an insurance bond): A pooled investment provided by a life company or friendly society.

Investment manager: The company responsible for managing the investment component of an investment bond.

Liquidity: Unlike superannuation, investors can withdraw funds from an investment bond at any stage.

Ownership transfer: Ownership of investment bonds can be transferred to any legal entity.

Regular savings plans: Many investment bond providers offer regular savings plans that allow investors to automatically grow their investment within the 125% rule.

Tax aware investing: An investment approach designed to minimise the tax impact of investment decisions.

Tax paid: The investment income of an investment bond is taxed at a maximum of 30%, and paid by the fund. After 10 years, investors are able to withdraw the value of the investment bond with no further tax payable.

Tax reporting: Investment bonds require minimal to no tax reporting by the investor provided there are no withdrawals within the 10-year period.

generation life

Forward thinking tomorrow for all generations.

As parents, children, and grandchildren across generations, we understand that life is more than just a financial decision, it is an emotional journey.

Generation Life – a trusted partner

As the pioneer of Australia's first truly flexible investment bond, Generation Life has been at the forefront of providing innovative investment, estate planning and retirement solutions since 2004.

Generation Life is a life insurance company registered under the Life Insurance Act. Our parent company Generation Development Group (ASX:GDG) is listed on the Australian Securities Exchange.

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