Estate Planning Strategy Paper

"Estate planning"; typically these two words inevitably cause angst amongst investors and, occasionally, financial planners.

Yet not having a will makes it likely that an estate will be distributed in a way that an investor didn't intend, and possibly in a way that the investor really wanted to avoid.

This is particularly problematic when someone wants to leave money to young grandchildren, who may not be old enough to look after sums of money on their own.

It may be preferable to set up an approach whereby children will only receive a lump sum when they reach a particular age, usually a milestone like 18, 21, or 25. Such arrangements, where bequests or gifts are not to take effect until many years in the future, may seem complicated and expensive to set up.

Many investors are now turning to investment bonds as an alternative low cost, flexible but highly effective estate planning solution.

To put this opportunity into context; it is estimated that approximately $600 billion will transfer intergenerationally over the 20 years from 2005 in Australia alone*. Australia also has an ageing population which brings many social issues such as aged care accommodation and health funding. Protecting the transfer of wealth from one generation to the next is critical to ensure the wealth accumulated by one generation is passed onto subsequent generations effectively with a minimum of leakage and/or dispute.

But firstly, why are estates being challenged?

Well quite simply, Wills are not bullet proof; the courts are often in a position of authority to decide on basis of need and moral claim.

There are an increasing number of estates that involve blended families.

The increasing incidence of dementia in elderly Australian's, which may create a raft of problems where capacity and undue influence may be concerned.

However, the long standing investment bond (also known as insurance bonds or Friendly Society Bonds) can be utilised to bring about very effective estate planning solutions. The investment bond is a tax paid investment, in much the same vein as superannuation, but without the hassles of the contribution caps and preservation restrictions that apply to super. The investment bond pays tax on the investor's behalf capped at the corporate rate (currently 30%^, however this rate may effectively be significantly less due to the use of allowable tax credits and benefits, e.g. franking credits). Importantly, the owner can still make withdrawals at any time for any purpose. What is great about investment bonds is that after it has been owned for 10 years, funds can be withdrawn in part or in full, free from any further tax assessment.

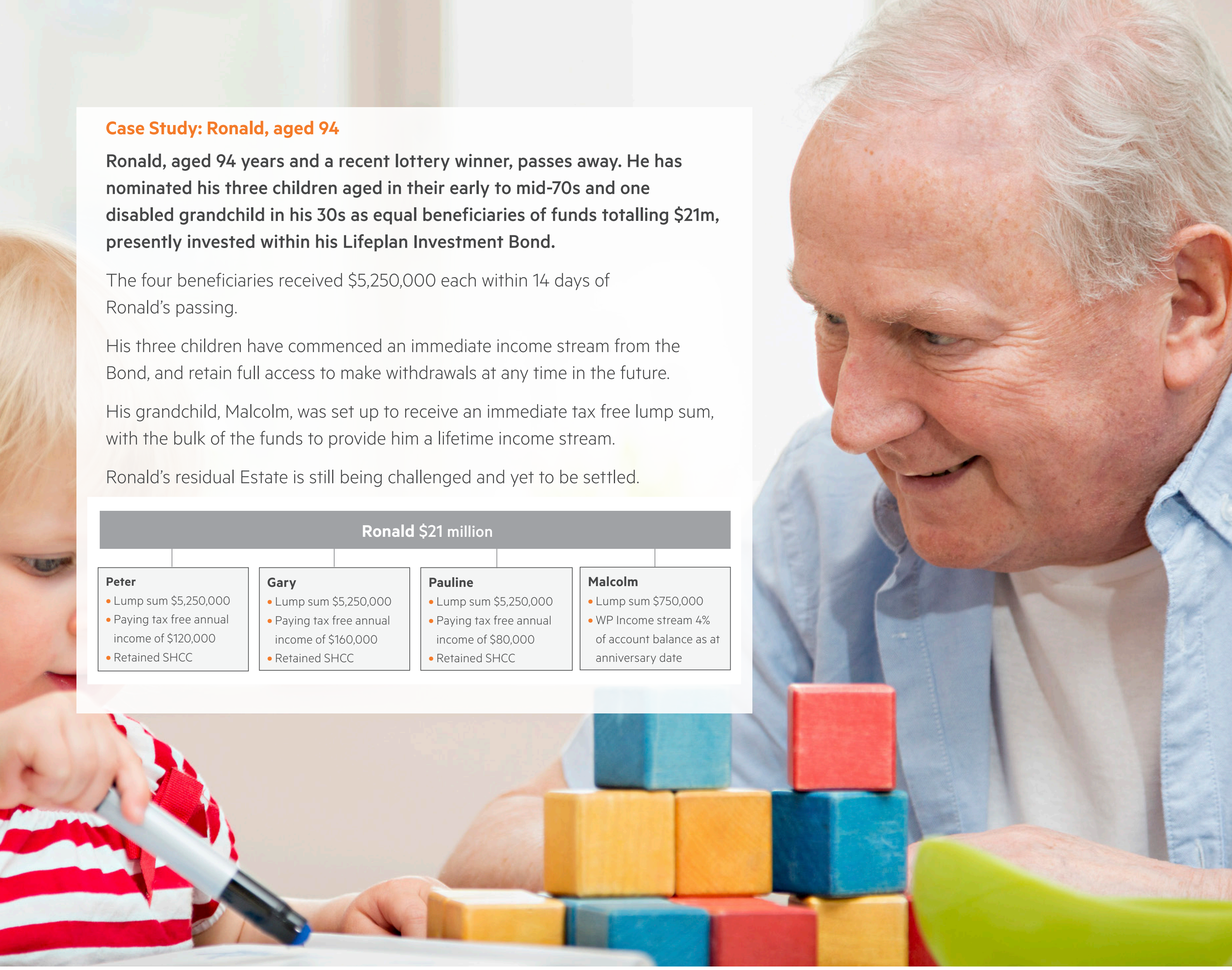
But where the investment bond really shines, is that beneficiaries can be nominated within the account – including charities – to receive the proceeds tax free at any time upon the owner's death, irrespective of how long the investment has been in place. In this instance, the investment bond is considered to sit outside of the deceased's Will so they are not subject to the usual delays associated with probate, and are very difficult, if not impossible, to successfully challenge.

The Lifeplan Investment Bond (The Bond) offers all of the above estate planning features and in addition to having a fully diversified investment menu to choose from, the Bond is the only investment bond in Australia to offer the Lifeplan Investment Bond Wealth Preserver (Wealth Preserver).

Wealth Preserver is an estate planning feature where the tax free proceeds upon death can be utilised to create a deferred lump sum, an income stream, or mix of both for any of the respective beneficiaries.

This is different to other investment bonds which would automatically be redeemed when the investor dies, and the lump sum paid to beneficiaries or to the estate and subject to probate delays.

*http://www.morningstar.com.au/smsf/article/giving-financial-plan/6587?q=printme.
^ato.gov.au



Case Study: Ronald, aged 94

Ronald, aged 94 years and a recent lottery winner, passes away. He has nominated his three children aged in their early to mid-70s and one disabled grandchild in his 30s as equal beneficiaries of funds totalling $21m, presently invested within his Lifeplan Investment Bond.

The four beneficiaries received $5,250,000 each within 14 days of Ronald's passing.

His three children have commenced an immediate income stream from the Bond, and retain full access to make withdrawals at any time in the future.

His grandchild, Malcolm, was set up to receive an immediate tax free lump sum, with the bulk of the funds to provide him a lifetime income stream.

Ronald's residual Estate is still being challenged and yet to be settled.

Ronald $21 million

Peter	Gary	Pauline	Malcolm
• Lump sum $5,250,000 • Paying tax free annual income of $120,000 • Retained SHCC	• Lump sum $5,250,000 • Paying tax free annual income of $160,000 • Retained SHCC	• Lump sum $5,250,000 • Paying tax free annual income of $80,000 • Retained SHCC	• Lump sum $750,000 • WP Income stream 4% of account balance as at anniversary date

Grandparents who would like to leave money to a teenage grandchild, but are worried they are too young to use the money sensibly, could instead set up an investment bond that pays the grandchild an income for, say, five years, and then receive the balance as a lump sum when they are in their 20s. Taking this approach allows grandparents to feel secure in the knowledge that their wishes will continue to be carried out even if they pass away.

It's also ideal for anyone who has a child that will require medical support or assistance for the rest of their life, and would like to ensure they have a regular and reliable income.

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