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

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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."

1980
The Over 50s Friendly Society established

1989
Merger with Protestant Alliance Friendly Society

1990
Establishment of Over 50s Insurance Agency

1994
Formation of The Over 50s Guardian Friendly Society

1999
Merger of The Over 50s Qld Friendly Society into the Over 50s Friendly Society

1999
Century Funds Management established

2001
Merger of Mutual Friendly Society into The Over 50s Friendly Society, forming Over 50s Mutual Friendly Society

2001
Demutualisation of Over 50s Mutual Friendly Society and formation of OFM Investment Group Ltd

2001
OFM Investment Group Ltd listed on ASX

2006
Merged with Century Funds Management

Nov 2010
Rebranded Centuria Life

2012
Reached 80K customers

2017
Centuria Capital Group acquired 360 Capital, growing AUM to $4.2 billion at 30 June 2017

Feb 2018
2nd place Strategic Insights' Investment Bond Benchmark report

2018
Centuria Capital Group reaches $5.6 billion AUM at 31 December 2018

Jan 2019
Launched Centuria LifeGoals

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SECTION 2

Why investment bonds are back in focus

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Investment bonds and superannuation over time

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

INVESTMENT BONDS

Mid-1800s-1900
Friendly Societies began to operate in Australia, introduced by early British arrivals to help individuals save for various life events within an environment of uncertainty

1970s
insurance bonds became popular, reflecting a growing investor demand for 'non-risk' and single premium features of life insurance policies. Cap Guaranteed products

1982
tax on realised gains from withdrawals within 4 years introduced in Income Tax Assessment Act 1936.

1983
tax on realised gains from withdrawals extended to 10 years

2001
Friendly Society and Relevant Life Office tax rates aligned and set at 30% (linked to the company tax rate)

SUPERANNUATION

1992
Superannuation Guarantee introduced

1996
Superannuation surcharge introduced

1999
Preservation rules strengthened. Introduction of Self Managed Super Funds (SMSF), regulated by ATO

2002
Super guarantee reaches 9%

2003
Government co-contribution introduced

2005
Superannuation supercharge abolished

2007
Tax on super benefits paid from a taxed fund abolished for people aged 60+

Contribution caps introduced to place limits on the concessions of super, replacing the Reasonable Benefits Limit system

2009
Concessional contributions cap halved

2013
Superannuation guarantee age limit abolished

Reform of the excess contributions

2016
Preservation age increase from 55 to 60 commences

2017
Commencement of super reforms announced in 2016 federal budget:
- $1.6m transfer cap
- Reduced concessional and non-concessional contribution caps
- Expanded pension product eligibility for earnings tax exemption

2024
Preservation age will increase to age 60

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…

1	2	3	4
Superannuation	**Personal Investments**	**Family Trust**	**Investment Bond**
Tax capped at 15%	Taxed at marginal rate of tax (up to 47%)	Distributions to beneficiaries at marginal rate of tax (up to 47%)	**Tax on earnings are capped at 30%**

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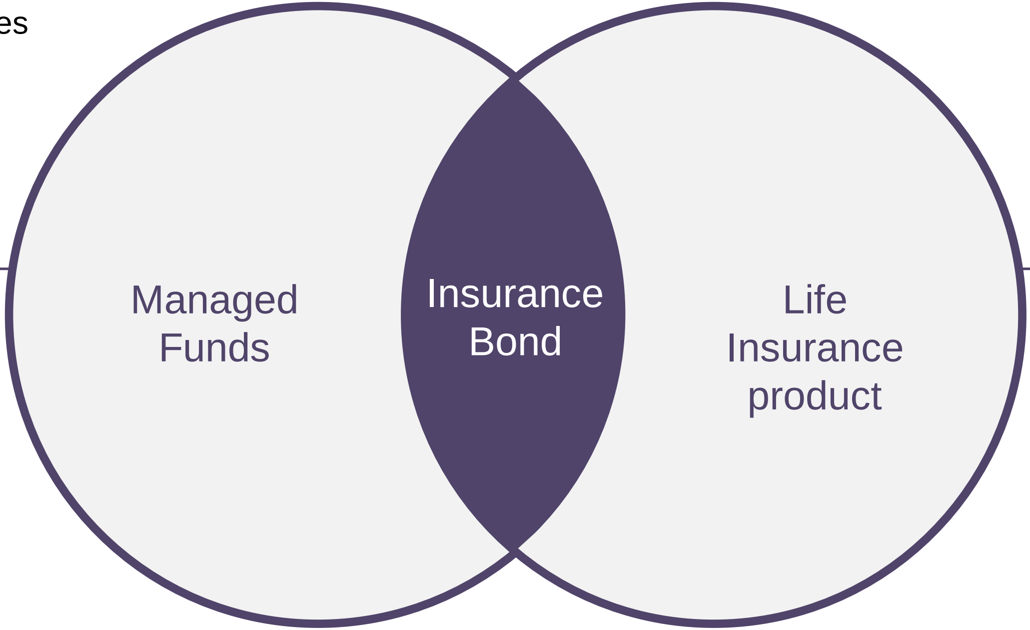
Investment bonds: the best of two worlds

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	BENEFIT
Tax rate	○ Tax paid at maximum 30%; no tax payable after 10 years ○ No capital gains tax on switching ○ No stamp duty on transfer
125% rule	○ Unlimited total contributions in first year ○ 125% of prior year's contribution allowed annually ○ Access to funds at any time
Distributions remain within fund	○ No need to declare earnings ○ No TFN or annual tax reporting required ○ Trusts & companies can invest to minimise distributions
Life insurance product	○ Bankruptcy protection ○ Does not form part of the estate ○ Nominate anyone as beneficiary or life insured, paid @ 0% tax
Assignment	○ Funds can be transferred to any other investor at anytime without the 10-year period recommencing

SECTION 3

Investor profiles and case studies

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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

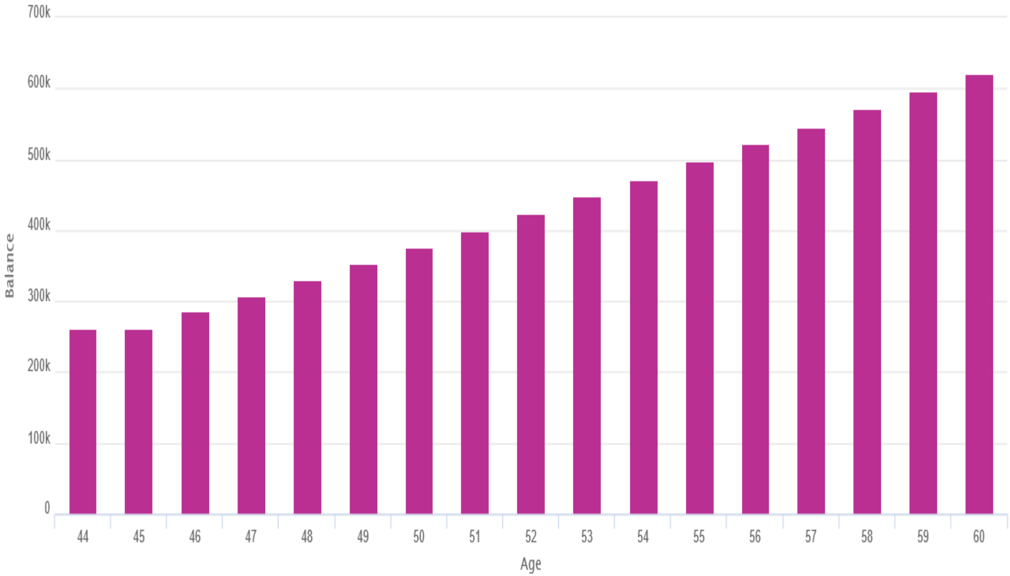
• They own their own home	$500,000
• Total Gross individual package	$150,000
• Less Super contributions	$25,000
• Individual after tax income	$33,882[1]

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



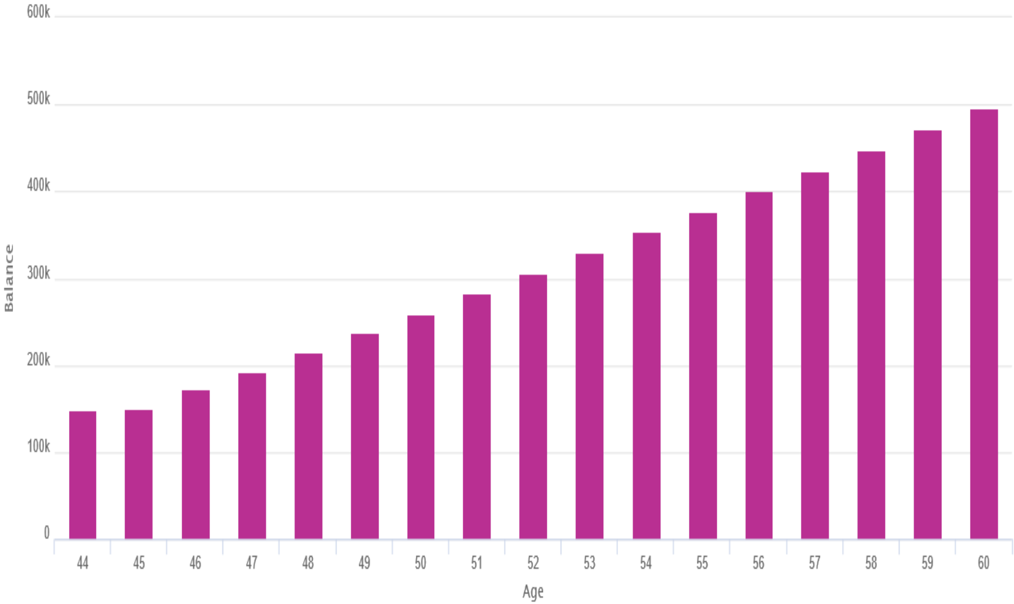
Mark's Superannuation balance

Super balance currently $261,931

Super balance at age 60, will be $621,151 after tax and fees[2]

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

Superannuation growth to retirement - Sue



Sue's Superannuation balance

Super balance currently $149,634

Super balance at age 60, will be $496,606 after tax and fees[2]

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

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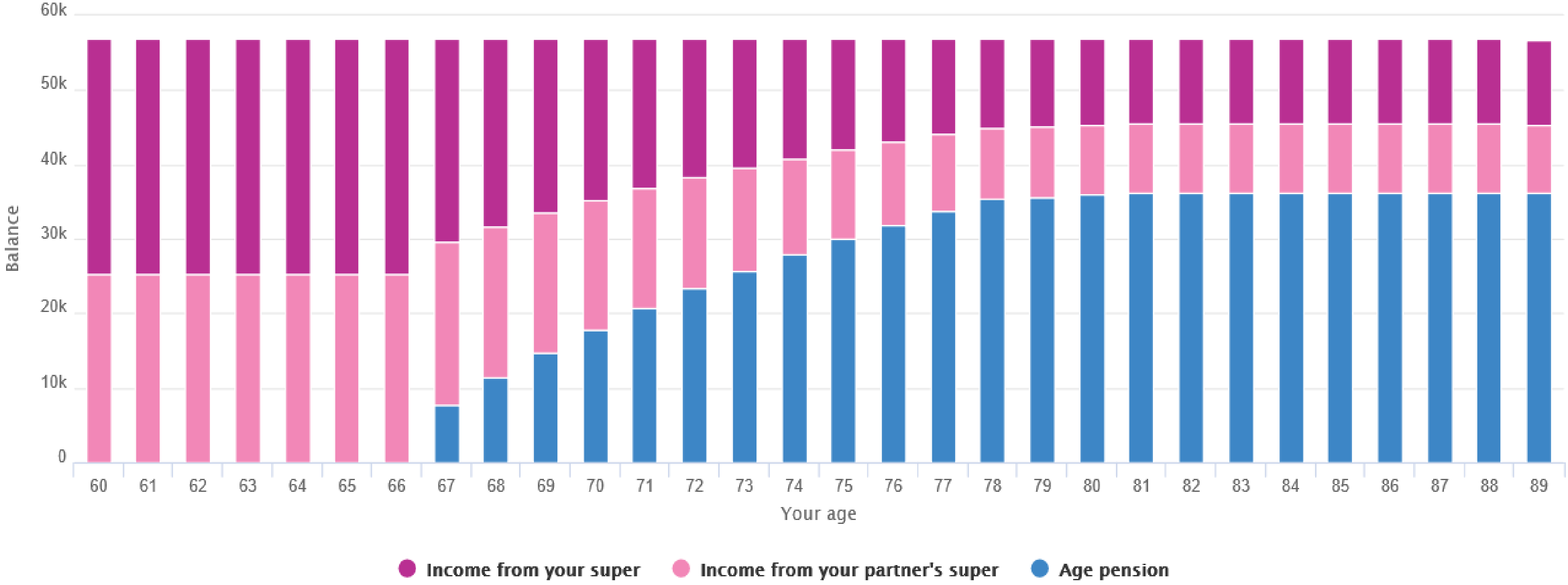
Mark and Sue’s retirement income will be $56,821 per annum super only



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

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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

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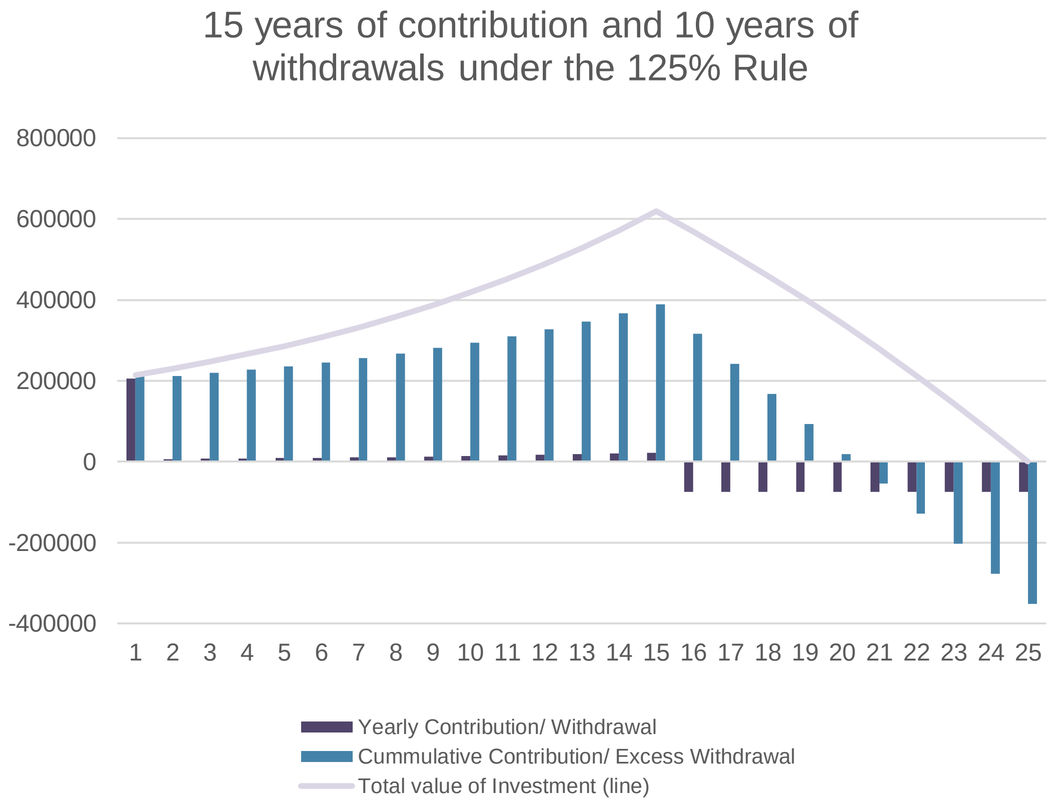
Creating a tax paid income from an investment bond



- 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 years[1] to enhance their total retirement income

1. SOURCE: CENTURIA LIFEGOALS 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 minimum[1] 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 account[2]

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

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- 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

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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

Simple to manage

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

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

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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