MGD Wealth Case Study: Estate Planning using Insurance Bonds

Beyond the savings and taxation benefits of Australian superannuation funds, several additional estate and asset protection features should be considered when it comes to intergenerational wealth transfer. Through this case study, we evaluate Insurance Bonds – *'the next best tax structure outside superannuation'* - to determine how the outcomes compare to those of the superannuation system.

MIKE'S CASE

Mike is 71 years old and on his 2nd marriage to Carol. Mike has 2 sons from his first marriage (Peter and Bobby) and Carol has 2 daughters from her first marriage (Marcia and Jan). Bobby is a disabled dependent and a ward of the State. All 4 children are cordial but it is not certain they would 'get along' when their parents are deceased. Mike and Carol have $1.4 million in their self-managed superannuation fund (SMSF), consisting of a concessional component (taxed element) worth $700,000. Mike has not made a death benefit nomination for his superannuation balance, so it is likely to pass onto his estate for distribution.

OBJECTIVES AND CONCERNS

- ✓ Ideally, Mike wants 50% for his sons and 50% for Carol and her daughters. However, Mike is concerned that when he is deceased, the Public Guardian may challenge his Will for a greater benefit for Bobby.
- ✓ If Mike nominates non-dependents as SMSF beneficiaries, this will be subject to 17% lump sum tax.
- ✓ If Carol pre-deceases him, Mike wants to make sure Carol's benefit passes to Marcia & Jan.

ADVICE

- ✓ MGD Wealth advises Mike to withdraw $700,000 from his superannuation balance and invest in an Insurance Bond (where he is the 'owner' and 'insured') with Carol listed as primary beneficiary and Marcia and Jan as equal secondary nominee beneficiaries should Carol pre-decease them.

OUTCOMES

- ✓ Peace of mind – Mike has prevented a challenge to his bequest to Carol and the girls (the establishment of a Bond is outside of the estate with 2nd generation bequest features built into the product).
- ✓ Mike has no tax payable on withdrawals from superannuation as he is over the age of 60.
- ✓ Asset protection - the State cannot challenge the Bond nomination as it is a non-estate asset.
- ✓ Upon Mike's death, the Bond proceeds pass onto Carol, Marcia and Jan, tax free.
- ✓ Mike has full access to the Bond money should he need it before his death – he can withdraw funds as a lump sum or as income stream; he can even assign it should his objectives change.
- ✓ Bobby receives his share of superannuation tax free as a disabled dependent.
- ✓ Tax paid on earnings inside the bond will be less over time than lump sum tax that would be paid if Mike made nominations to all four children via a super beneficiary nomination/documentation process.
- ✓ As an adult non-dependent child, Peter will pay lump sum super tax at 17% on his portion of the superannuation bequeathed to him by his father.

COMMENTS

- ✓ Insurance Bonds are a tax effective, flexible way to house superannuation proceeds and a valuable estate planning tool to bequest wealth outside of the estate.

Tax Risk & Arbitrage – Insurance Bonds

Investment Structure?

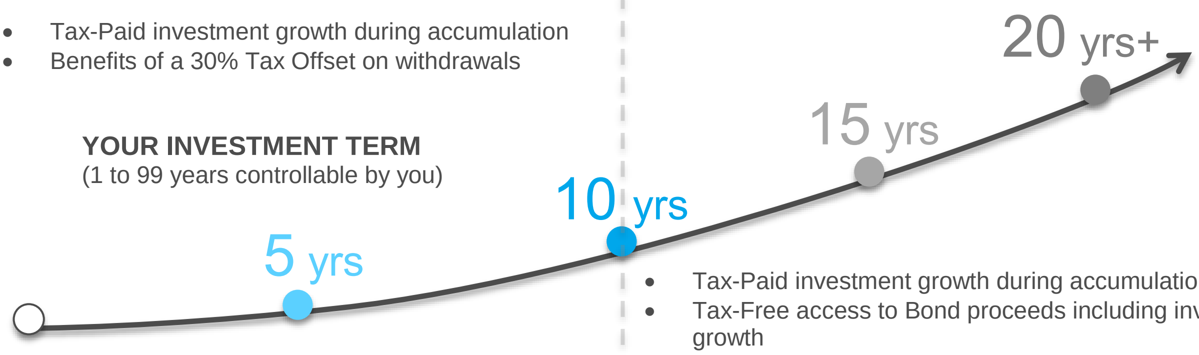
Income	47%	28.5% / 30%	22% - 30%	15% / 30%	0%
Capital Gains	24%	28.5% / 30%	0%*	10%	0%

Tax Paid Life Insurance Bonds

TAX ADVANTAGES WITHIN 10 YEARS	TAX ADVANTAGES AFTER 10 YEARS

- Tax-Paid investment growth during accumulation
- Benefits of a 30% Tax Offset on withdrawals

YOUR INVESTMENT TERM
(1 to 99 years controllable by you)



- Tax-Paid investment growth during accumulation
- Tax-Free access to Bond proceeds including investment growth

Tax advantages over the bond's whole term

Tax rate "arbitrage" and personal tax deferral advantages	Switch Investment portfolios without personal tax or CGT*	No personal tax or CGT whilst accumulating*
Benefits of the 125% Add-On Feature	Tax-Free distributions in the event of death, disablement or major illness	No TFN. No tax reporting obligations whilst accumulating

Flexible Investment Structure

- Master trust structure
- Tax structure – nominal rate 30%
- Rebate – 30% in first 20 years
- Any entity can own
- Binding nominations
- Switching without tax event
- Any person or entity can own (incl. children aged 10-16)

- Life insured (tax-free on death – no insurance interest req.)
- Life insurance contract
- Actual rates 19-30%
- No TFN
- Transferable without tax
- Contribution limit – 125% rule
- Use as security for a loan
- No income or capital gains distributions

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