Estate Planning
Strategy Paper

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

Yet about 40% of Australian's do not have a Will[1]. For those Australian's, a Will makes it likely that an estate will be distributed in a way that they didn't intend, and possibly in a way that they wanted to avoid.

This gets particularly problematic when someone wants to leave money to young grandchildren or disabled family members, who may not be able to look after sums of money on their own, has step-children they would like to assist or an ex-partner they want their wealth safeguarded from.

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

To put this opportunity into context; it is estimated that a$2.4 trillion is estimated to be transferred from baby boomers to the next generation [2]. 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 or dispute.

But firstly, why are estates being challenged?

Put simply, Wills are are not as iron clad as they may appear. Wills are not bullet proof; the courts' are often in a position of authority to decide on the basis of need and moral claim. In particular, the main grounds for estate challenges are financial need, deservingness and sense of entitlement.

There are an increasing number of estates that involve blended families - thereby adding more complexity and uncertainty to wealth distributions

Also in 2018 an estimated 436, 366 Australians sadly have been diagnosed with dementia. This is expected to increase to 1,076,129 by 2058[3]. The increasing incidence of dementia in elderly Australian's, could create a raft of problems where capacity and undue influence are 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 and help accommodate changing societal needs. The Lifeplan Investment Bond is a tax paid investment, in much the same vein as superannuation (super), but without contribution caps and preservation restrictions that apply to super. The investment bond pays tax on the investor's behalf capped at the life insurance tax rate (currently 30%^, however this rate may effectively be 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. An added benefit 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.

Where the investment bond can really provide value, 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, to successfully challenge.

The Lifeplan Investment 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.

1. Tilse,C., Wilson,J., White,B., Rosennam, L& Feeney,R (2015) https://www.ptg.act.gov.au/images/pdf/having-the-last-word.pdf
2. Australian Bureau of Statistics 6523.0, Household Income and Income Distribution – Household Net Worth by Age of Reference Person.
3. Dementia Australia (2018). Dementia Prevalence Data 2018-2058, commissioned research undertaken by NATSEM, University of Canberra.

Case Study: Ronald, aged 94

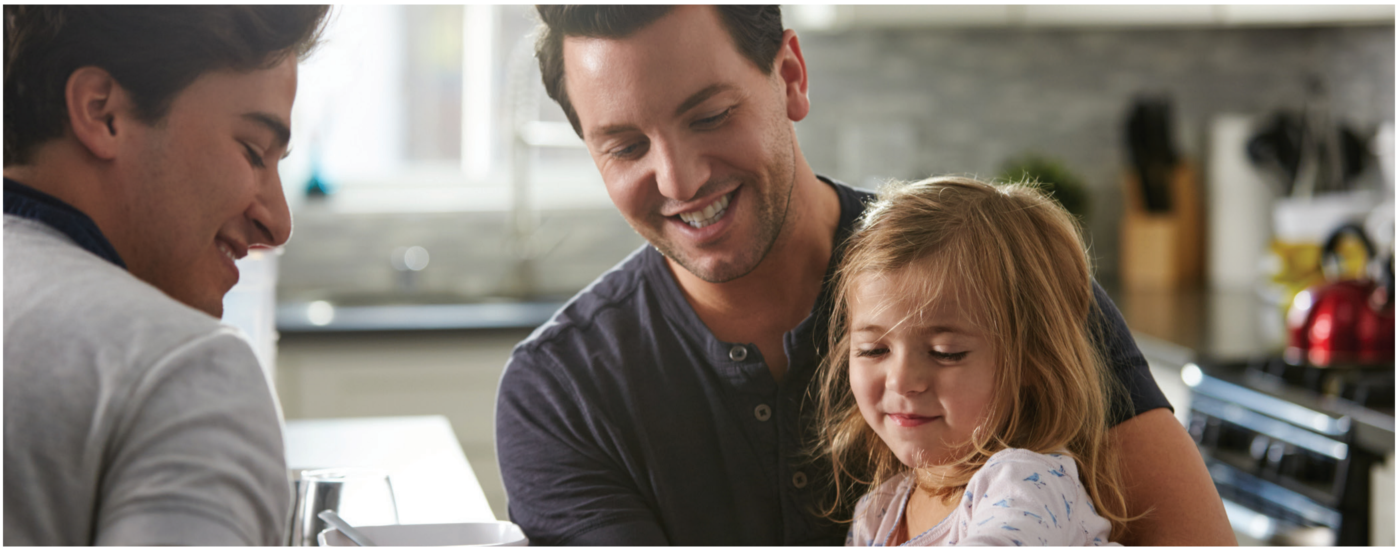
Ronald, aged 94 years and a recent lottery winner, passes away. He has nominated his three children aged in their early to mid-70s and one disabled grandchild in his 30s as equal beneficiaries of funds totalling $21m, presently invested within his Lifeplan Investment Bond.

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



Case Study: Daniel and Jaidyn

Daniel and Jaidyn are a male couple in their early 30's, parents to Victoria and have an acrimonious relationship with Daniel's parents. His parents have conveyed that they would seek custody of Victoria and Daniel's assets if he predeceases Jaidyn.

Daniel and Jaidyn's primary objective is to ensure their wealth passes only to Victoria if anything happened to both of them If Daniel passes away, Jaidyn retains ownership as he was a joint owner and life insured. It is a non-estate asset.

If Daniel and Jaidyn were to both pass away, Victoria would inherit the funds via Wealth Preserver.

There is no need to wait for probate as the funds are classed as a tax free death benefit and any challenges to the estate would be disregarded. If Victoria is younger than 30, the funds are invested and protected until she reaches the age nominated by her parents on the policy.

Daniel
Lifeplan Investment Bond investor and Life Insured

Jaidyn
Lifeplan Investment Bond investor and Life Insured

Daniel and Jaidyn applied for Wealth Preserver and elect their death benefit to be paid to Victoria

Victoria
To receive a lump sum on her 30th birthday

Case Study: Darren and Samantha

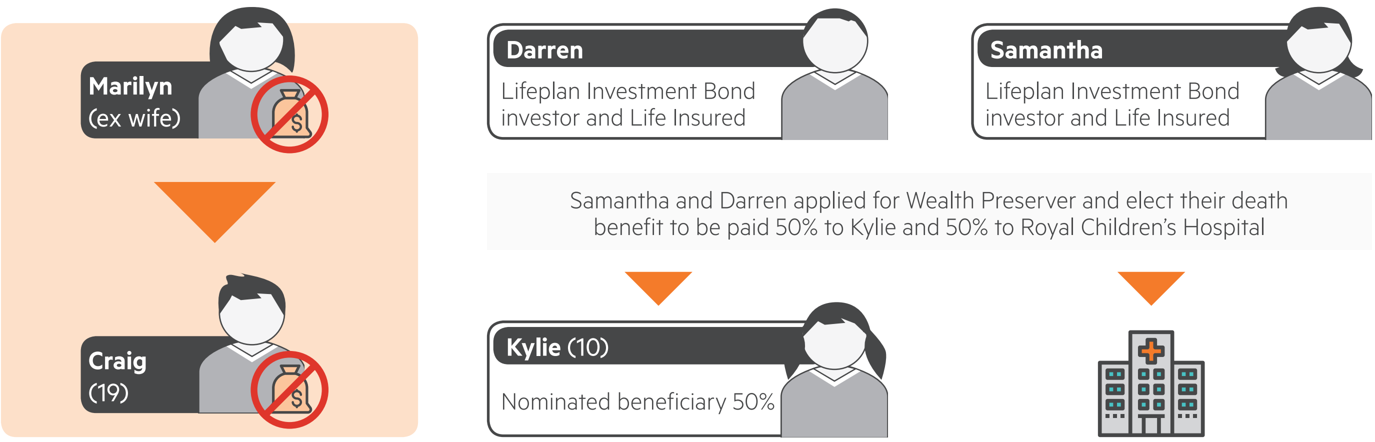
2018 - Samantha and Darren are married with daughter Kylie. Darren has an ex-wife Marilyn and a son Craig from his previous marriage. Neither Craig nor Marilyn is on speaking terms with Darren or his new family. Darren is concerned that both Marilyn and Craig will challenge his Will. Upon passing, Samantha and Darren want to ensure that 50% of their wealth is passed to Kylie and the remaining 50% is passed to the Royal Children's Hospital (RCH) as a donation. They invest within a Lifeplan Investment Bond and select the Wealth Preserver option to be activated on the death of the last life insured.

2020 - Darren predeceases Samantha; the funds are still invested and protected as they were jointly owned. If Darren wanted to ensure that the funds flow onto the respective beneficiaries if Samantha remarries, the Bond could be held solely in his name with Kylie and RCH as equal beneficiaries.

2024 - Samantha passes away and 50% of funds are paid directly to RCH. The remaining 50% for Kylie is determined by the Wealth Preserver instructions set by Darren and Samantha, and would be paid out as:

- a tax free immediate lump sum,
- a deferred lump sum,
- an income stream, or
- a mix of all of the above.

There is no requirement for probate, being a non-estate asset it becomes very difficult, if not impossible, for Marilyn or Craig to challenge.



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