

Our top 5 tips

Investment Bonds

1 Diversify!

Most of us know the importance of diversification, but do we practice what we preach? It is important to fully diversify your portfolio, not just across investment managers or asset classes, but to also build in some protection from ongoing legislative risk or regulatory risk. The constant superannuation rule changes are a good example of this. As we know, contemporary superannuation rules look very different to those in place many years ago. This could significantly impact post-retirees who may have a 20+ year timeframe from retirement at age 65. A parallel retirement funding strategy within an investment bond can add flexibility and legislative stability for many retirees. The investment bond has the added benefit of simplified and streamlined estate planning outcomes.

2 Hold an investment bond for as long as it is appropriate

Don't fixate on the ten year term. As part of a tax-minimisation strategy, if you are subjected to high tax rates now but plan to drop into a lower (or nil) tax rate in say 5 years, let the 5 year timeframe and your overall risk profile determine the overall asset allocation. Conversely, if you expect to remain subjected to high tax rates indefinitely, then holding the investment bond beyond its tenth year would be appropriate in order to take advantage of the tax arbitrage offered.

3 Look at the big picture

As salary or wage income increases over time, it is important to consider what impact this has on investments commenced today and at the time of realisation many years into the future. What is of paramount importance here is not so much the tax rate at the time of commencing the investment; it is the tax rate at the time of redemption and tax assessment – particularly CGT consequences with growth assets. An investment bond can also remove the administrative burden of managing future CGT liabilities when the investment is withdrawn.


4 Start small and start early


A little can go a long way. A small investment started early enough and left alone to grow, can potentially achieve far more through the power of compounding returns than a larger initial investment over a shorter time frame later in life. An investment bond can offer a set-and-forget investment over the long term that can be withdrawn after ten years without any further tax assessment.

5 Keep it simple!


Life has become complicated enough as it is, so use a back to basics approach. The safest is to repay non-deductable debt (home mortgage, car loans, and credit cards) however, this requires a disciplined approach otherwise the funds can simply be redrawn and spent. Investing in the name of the lowest income recipient or even income splitting where possible is another tax effective strategy. Consideration should then be given to structured tax planning in order to quarantine investment earnings within a formal structure such as superannuation, discretionary family trust, or an investment bond.


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