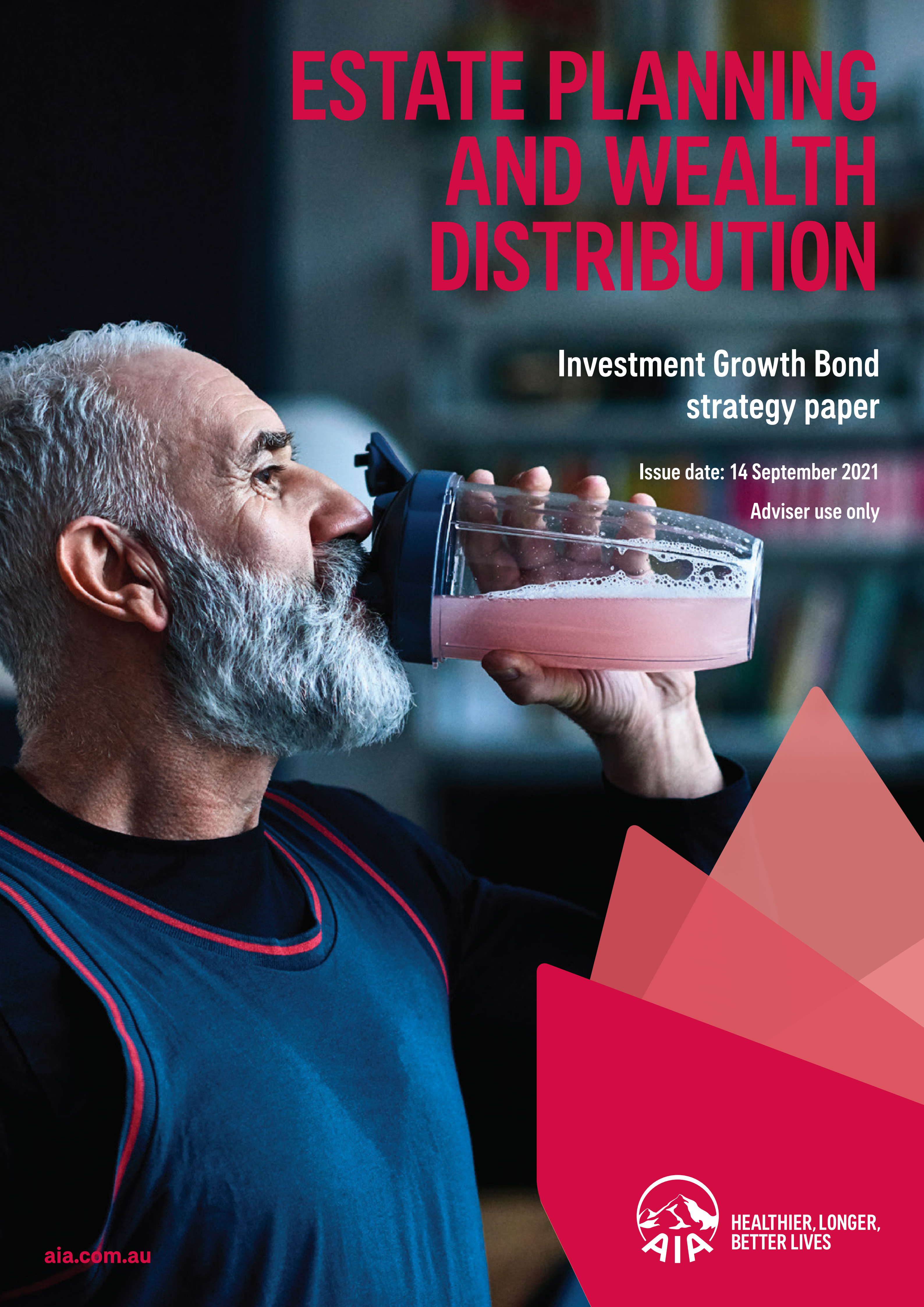

ESTATE PLANNING AND WEALTH DISTRIBUTION

Investment Growth Bond strategy paper

Issue date: 14 September 2021

Adviser use only

HEALTHIER, LONGER, BETTER LIVES

aia.com.au

At a glance

This paper illustrates how advisers can use AIA's Investment Growth Bond to help clients who are seeking certainty around their estate planning arrangements.

It covers:

- **What are insurance bonds?**
- **The AIA Investment Growth Bond**
- **Estate planning**
- **Case study – a father looking for estate planning strategies**

What are investment bonds?

Insurance bonds, also called investment bonds (bonds) are a flexible, tax-paid investment with many features similar to managed fund, with the security and advantages of a life insurance policy. They're easy to establish and withdrawals are generally tax-free if the policy has been held for 10 years or more. After 10 years, if the client has satisfied the 125% rule (where each year's contributions do not exceed 125% of the previous year's contributions), any withdrawals made will not attract personal income tax or capital gains tax.

Insurance bonds can be used to help clients achieve a wide range of financial goals in different life stages, from childhood through to retirement. Insurance bonds assist clients in the diversification of their investments, with a choice of investment options across different asset classes, such as Australian and international shares, cash, fixed income and global property.

Insurance bonds can also be used in a client's portfolio as an alternative to superannuation, to save for a child's future, as a business succession planning tool and in the accumulation, protection and transfer of wealth. The ownership structure of an insurance bond is ideal for estate planning as it can be held individually, jointly and by companies or trusts.

This paper illustrates how an AIA Investment Growth Bond (the AIA IGB) can be used to provide certainty for estate planning purposes, particularly for clients wishing to leave an inheritance for an adult child or grandchild.

AIA Australia's Investment Growth Bond

The AIA award winning[1] Investment Growth Bond offers the simplicity and flexibility to suit a wide range of needs and different situations. Retirees, grandparents, mums, dads, children, grandchildren and high income individuals can all benefit in different ways. This is because the AIA IGB offers benefits beyond those typical of most insurance bonds.

Certainty for estate planning and wealth transfer

The AIA Death Benefit Guarantee provides certainty on the minimum amount that will be paid on the death of the last surviving life insured. If the last surviving life insured dies on or prior to their 99th birthday, AIA[2] will pay the greater of the following amounts:

- The cash value of the Bond, or
- The lesser of the Net Contribution Value and the maximum amount ($1 million per Life Insured).[3]

When the last surviving life insured reaches their 99th birthday, the policy owner may request a full withdrawal, and they will receive the greater of the two amounts described above. More information on estate planning can be found on page 4.

Please refer to the Product Disclosure Statement (PDS) for more information on the Death Benefit Guarantee.

Protection from market risk

The AIA IGB also provides an investment option guarantee for four of its nine investment options. This gives clients' peace of mind, knowing that their investment is protected from market falls if they have held their bond for the required time.[4]

In addition to the typical features of most insurance bonds described above, the AIA IGB also offers a number of additional features:

A range of investment choices

- Suitable for a range of investment risk profiles, with four multi-sector and five single-sector investment options
- Switch investment options at any time with no fee or personal capital gains tax impacts
- Four investment options offer investment option guarantee that protect capital from market risk
- Clients can tailor their own diversified portfolio from a mix of the single-sector options.

Easy investing and withdrawals

- There is a minimum initial investment of $1,000 and a minimum of $200 for additional contributions.
- Access to funds at any time. (Withdrawals may trigger a tax liability on the profit element of the investment, although clients may be able to take advantage of the 30 per cent tax offset.)
- Minimum withdrawal of $1,000 ($500 for automatic withdrawals).
- Automatic withdrawal facility for balances over $10,000.

Competitive fees

- No establishment, withdrawal, termination or switching fees
- Management fees from 0.85 to 1.5 per cent, depending on the investment option
- Adviser Service Fees, agreed between you and your clients, may be deducted from the Bond as a one-off and/or an ongoing fee.

Investing for children

- Children as young as age 10 can invest with parental/ guardian consent
- An adult can establish a Child Advancement Policy on behalf of a child under 16 years of age with the ownership of the AIA IGB transferring to the child at a set age between the ages of 10 and 25.

Our awards

Our Investment Growth Bond has won the AFA Investment Bond of the Year award 13 years running, from 2008 through to 2020.[1] We're also proud winners of the 2020 AFA Investment Bond Excellence Award.

1 AFA Investment Bond of the Year winner from 2008 through to 2020. Benchmarked on scores for financial, market and product strength factors.

2 AIA Investment Growth Bond is issued AIA Australia Limited ABN 79 004 837 861 AFSL 230043.

3 The Net Contribution Value is the total value of all deposits less any withdrawals during the life of the policy and less any switching fees, withdrawal fees and adviser service fees deducted during the life of the policy. The Maximum Amount is limited to $1 million per life insured (or such other amount as AIA advises in writing). Where multiple IGB policies have the same life insured nominated, AIA will guarantee a total of the maximum amount across all policies. Any decrease in the guarantee to the maximum amount would only apply to new policies from the date of the change.

4 For the Global Fixed Income investment option this period is two years; for the Conservative and Diversified options it is three years. The Cash option offers a guarantee that the unit price will never fall irrespective of the length of time the IGB has been held.

5 Includes Medicare Levy of 2 per cent p.a.

Estate Planning

What is estate planning?

Estate planning involves putting in place strategies to make sure that your assets go to the people that you want it to go to, when you die.

Estate planning benefits of an AIA Investment Growth Bond

An AIA IGB can offer a number of benefits that can help with estate planning.

- Whether paid to a deceased estate or to a nominated beneficiary, AIA IGB proceeds are tax-free upon death.
- Clients can nominate more than one beneficiary and stipulate the percentage of the benefit that each beneficiary will receive.
- Where there is a nominated beneficiary, the benefit can be distributed without having to wait for probate to be granted.
- Complex family (blended and split) situations can be accommodated. For example, where there are children from a previous relationship, an AIA IGB can provide a level of asset protection for those children. Where the child is a nominated beneficiary if the parent dies, the AIA IGB proceeds will be paid directly to the child as the nominated beneficiary.
- Benefits paid directly to nominated beneficiaries are not subject to family provision challenges (except under certain circumstances in New South Wales).
- Unlike super, beneficiaries don't have to be dependents to receive AIA's IGB proceeds tax-free. For example, the beneficiaries can be extended family, unrelated individuals or charities. Because investment growth bonds are not part of an investor's estate, the discretion of these bequests is also preserved.

Nomination of AIA IGB beneficiaries

Where the policy owner of an AIA IGB is also the life insured, they can nominate one or more beneficiaries. Where the AIA IGB is jointly owned, both owners must be named as lives insured to jointly nominate a beneficiary.

The policy owner(s) can change a nominated beneficiary or revoke a previous nomination at any time before a claim event occurs. If ownership of the policy is transferred to another person or entity, any previous nomination is revoked.

If a nominated beneficiary dies before the last life insured then any benefit will be paid to the beneficiary's estate upon death of the last life insured.

The AIA IGB as an alternative to superannuation

The potential tax treatment of investments upon death is a major consideration for advisers, clients and beneficiaries, particularly when clients have non-dependant children as beneficiaries. In the superannuation environment, death benefits paid to children who are non-dependants for tax purposes are subject to tax of up to 32 per cent.[5]

The AIA IGB can offer an alternative in these situations, as it allows proceeds to be paid to any beneficiary (including non-dependants) tax-free if the relevant criteria are met. A beneficiary of an AIA IGB can be a person, charity, corporation or trust.

Case study - a father looking for estate planning strategies

Henry, aged 72 is a self-funded retiree, who wants to provide an inheritance and is concerned about conflicts over his estate when he dies.

Henry has four adult children (two from a previous marriage) and the children don't get on with each other. He is concerned that there may be conflicts over his estate when he dies. Henry also wants to leave a small amount to assist his sister. He would like to set up an inheritance for his children and his sister that will be safe from any family disagreements over his will.

Henry consults his financial adviser, who proposes the following:

Strategy

With his adviser's help, Henry sets up an AIA IGB policy, of $400,000, with himself as the policy owner and life insured, with each of his children as nominated beneficiaries, allocated 25 per cent equally.

For his sister, he sets up a separate AIA IGB policy of $100,000, with himself as the policy owner and life insured and his sister with 100 per cent allocation as the nominated beneficiary.

This means that he has full control over his investments and can make withdrawals and investment switches at any time.

An advantage of this strategy for his children is that unlike super, he is able to allocate his inheritance to non-dependants. His adult children and sister will inherit the bonds, without the capital gains tax liability that may occur with other direct investments and will be paid in the proportions he has nominated.

Strategy summary

Henry has fulfilled his desire to leave a tax-effective inheritance to each of his children and sister when he dies. He has the peace of mind knowing that his estate planning is in place, however, he still has access to his investment.

For more information about how our Investment Growth Bond could help your clients, please contact your Retirement Business Development Manager.

NSW/VIC/ACT/TAS
Simon Felice
0416 037 066
simon.felice@aia.com

QLD/WA/SA/NT
Vijay Mathew
0475 955 323
vijay.mathew@aia.com