

The gift of education



You want the best for your children or grandchildren – nutritious food, warm clothes, an active lifestyle – and importantly, an education that will set them on the path for a happy and successful life. But a good education often comes at considerable expense.

The 2017 Household Expenditure Survey found Australian households were spending more each week on living and learning than in previous years. In fact, the biggest increase in expenditure was on education, up 44 percent since the previous survey in 2011. According to the Australian Bureau of Statistics (ABS):

“The hike in education spending mainly came from spending on school fees, which rose by almost half from 2009-10 to 2015-16.”

In an environment where wage growth is stagnant and education expenses increase at a rate far greater than inflation, how can you provide the best education possible for your children or grandchildren?

Centuria Investment Bonds

A division of Centuria Capital, Specialist Investment Manager
www.centuria.com.au/investment-bonds 1300 50 50 50

Investment bonds – a tax effective savings vehicle

Wouldn't it be great to know you had the school fees covered? One less expense to worry about, and the confidence of knowing you can make the best educational choices without being unduly influenced by the price tag.

An investment bond is an insurance policy, with a life insured and a beneficiary, which operates like a tax-paid managed fund. And as with a managed fund, you can select from a broad range of underlying investment portfolios, which range from growth-oriented assets such as equities, through to defensive assets such as fixed interest. They can also include other asset classes and combinations of assets.

A five-step guide to start a savings plan for a child's education



An investment bond has several advantages over other investment vehicles:

Tax effectiveness

Returns from an investment portfolio are taxed at the company tax rate (currently 30%) within the bond structure and are then re-invested. They are not distributed as income, so you do not need to include them in your annual tax return. If the bond is held for 10 years, all funds are distributed tax-free.

Depending on the investments in the underlying portfolio, dividend imputation credits may apply, making the effective tax rate less than the prevailing company tax rate. This compares very favourably with the top marginal tax rate of up to 49%.

Capital gains tax simplicity

As earnings are automatically reinvested in the bond, reinvestment dates do not need to be tracked for capital gains tax purposes. In addition, the bond holder can switch between investment options without triggering a capital gains tax liability.

Affordability

There is no limit on how much is invested in an investment bond – it may be as little as \$500 or as much as \$5,000,000! Importantly, you can make additional contributions every year, up to 125% of the previous year's contribution – a terrific way to build up an education fund.

...it's important to plan ahead to ensure that educating your children, or grandchildren, does not put unwarranted financial pressure on your family.

Flexibility

Investment bonds are most tax-effective when held for 10 years or more, but the funds can be withdrawn at any time as required. If the money saved is not in fact needed for education, it can be used for any other purpose.

Ownership and transfer

If saving for a child's education, the investment can be held in the child's name once aged 10 or more. This means however, the child will gain full control to decide how to spend the money once he or she reaches age 16.

The preferred option in most cases is to hold the bond in the name of the parent or grandparent. This avoids penalty tax rates for children under 18 if they make withdrawals in the first 10 years, the adult stays in control, and the bond can be started for a child younger than age 10.

This is an option preferred by many grandparents putting money aside for a grandchild's education. If ownership is transferred to the child, the original start date is retained for tax purposes.



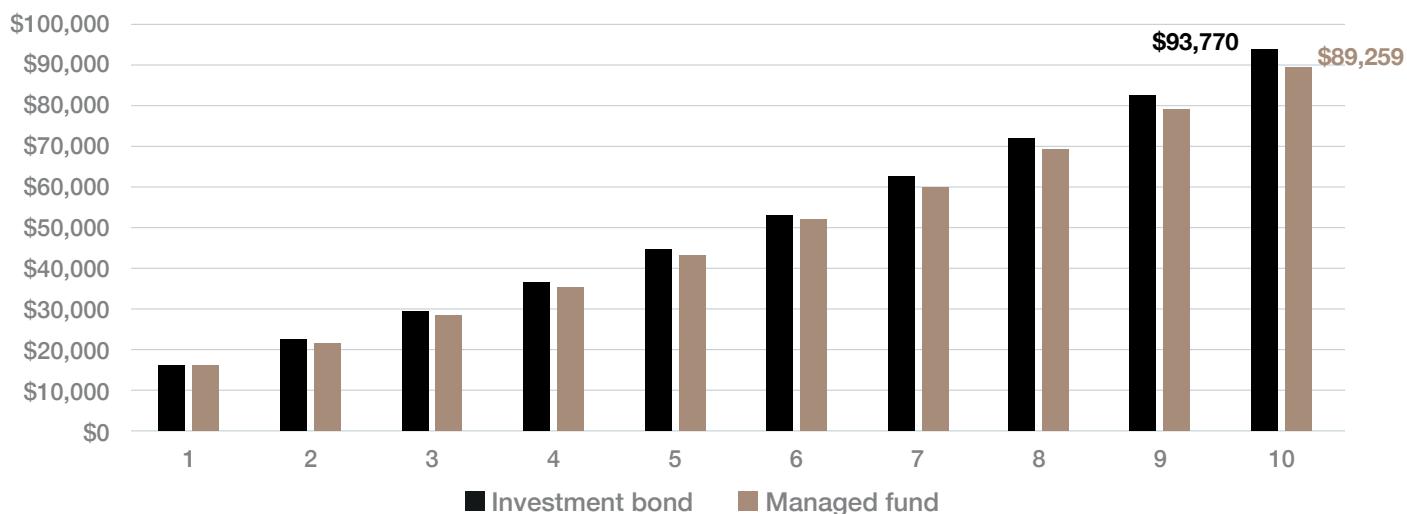
Case study

Saving for a private secondary education

James and Vicki recently celebrated their daughter's second birthday. After meeting a financial adviser, they agreed that a key objective is saving to send Olivia to a private secondary school. James and Vicki had been reading about the increased cost of education and realised they needed to start saving as early as possible to ensure that the cost of this secondary education wasn't crippling.

Figure one: Meeting education goals

Portfolio balance (after tax) over 10 years



Provided for illustrative example only based on the basic income and growth assumptions described above. This illustration example does not purport to represent the actual return possible in any of Centuria Investment Bonds. An investment is subject to risk, the degree of which depends on the assets in which the bond invests. Assumptions: total returns of 8.5% - 4.5% income (80% franked), 4% capital growth. 100% annual turnover of the portfolio, 50% CGT discount applies for managed fund.

Because both parents are on the highest marginal tax rate, an investment bond is the most tax effective investment for them. They have saved \$10,000 in a cash account for Olivia which, given their long-term investment horizon, they invest in the growth option of an investment bond. They also add \$5,000 at the beginning of each year for the duration of the investment.

As illustrated in figure one, at the end of the investment period, Vicki and James have accumulated a tax free \$93,770 to put towards Olivia's education. While it may not cover it in its entirety, it will certainly alleviate many of the household stresses associated with the rising cost of education.

Estimates suggest the cost of educating a child born this year could reach as high as \$66,320 in the government sector and nearly \$500,000 in the private sector. Wage growth is unlikely to experience a similar growth trajectory, so it's important to plan ahead to ensure that educating your children, or grandchildren, does not put unwarranted financial pressure on your family.

Start investing today.
Simple | Flexible | Versatile

Please note this is general information and does not consider the circumstances of any individual. It is based on an understanding of current legislation, but no warranty is given for its accuracy. Any person intending to act on this information should seek the assistance of a professional adviser.

**If you would like to speak to one of our Investment Bond specialists call
1300 50 50 50 or for more information www.centuria.com.au/investment-bonds**

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