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IOOF WEALTHBUILDER

Example strategy 4

Saving for our first home

The 'just in case' happended (see page 3)

Issue

Harry and Millie are a young married couple, aged 27 and 24 respectively. They have been married for one year and are currently living with Millie's parents so they can start saving for their first home.

- They are both working full-time as accountants and are paying off their student debts.
- Harry and Millie have $2,000 for their initial deposit. Excitedly both set of parents have decided to match their children's deposit.
- They would like the flexibility to access their funds whenever they need it, just in case!

Solution

A solution for Harry and Millie could be to utilise the simple tax-effective structure of an investment bond.

- Planning ahead, Harry and Millie may elect to place the investment in Millie's name only.
- Start with an initial deposit of $6,000.
- Add a monthly contribution of $250 each, so collectively $500 per month to the investment bond.
- Ability to invest into a range of diversified or single sector investment options that offer the tax-effective structure of an investment bond.

Outcome

Harry and Millie are now on their way to their first home deposit, with a simple savings solution in an investment bond.

- Unlike direct investments in managed funds, whilst holding investments in an investment bond, Millie doesn't have to include investment growth or earnings from her bond in her personal tax returns. The investment bond also offers a flexible, easy, no fuss investment structure with a range of investment options that allow them to achieve their investment goals.
- Harry and Millie will always have 100% access to their funds.

Furthermore, Harry and Millie have the added incentive that after 10 years, Millie will never have any personal tax liability on the growth and earning of her investment.

Turn overleaf to discover the calculations behind this strategy utilising the IOOF **WealthBuilder** calculator, which can be found at www.ioof.com.au/calculators

Harry and Millie have successfully started saving for their first home and are comforted to know they will always have 100% access to these funds, just in case!

Investment details for Harry and Millie:

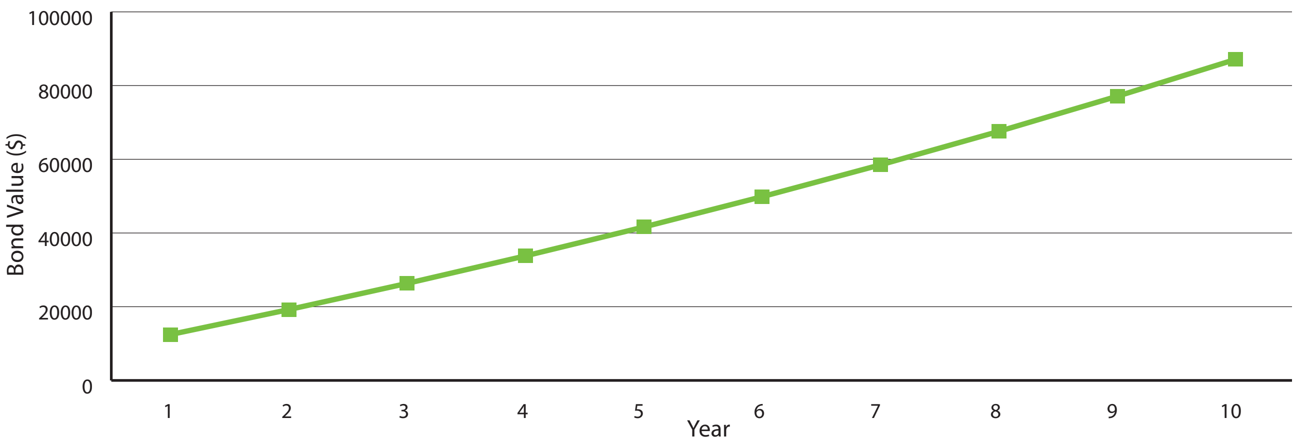
Initial Investment:	$6,000
Monthly contributions:	$500
Net return:	5% (after fees and taxes)[1]

The 10 year period is just a 'line in the sand', an investment bond is accessible anytime and continues until withdrawal.

Projection to Year 10 (in future dollars):

Years	10
Contributions	$66,000
Growth	**$21,105**
Value of bond	$87,105
Tax free benefit after 10 years[2]	**$87,105**

Year by year projections (in future dollars):



Year	Balance at start of year	Harry and Millie's contributions	Balance at end of year
Year 1	$0	$12,000	$12,448
Year 2	$12,448	$6,000	$19,219
Year 3	$19,219	$6,000	$26,328
Year 4	$26,328	$6,000	$33,792
Year 5	$33,792	$6,000	$41,630
Year 6	$41,630	$6,000	$49,860
Year 7	$49,860	$6,000	$58,501
Year 8	$58,501	$6,000	$67,574
Year 9	$67,574	$6,000	$77,101
Year 10	$77,101	$6,000	$87,105

For further information about IOOF WealthBuilder, please contact your financial adviser, call client services on 1800 002 217 or visit www.ioof.com.au/wealthbuilder to obtain a copy of the product disclosure statement.

1. Net returns are dependent on a range of factors such as market conditions, fees, taxes and assets underlying the investment bond. Returns vary over time and are not guaranteed.
2. The investment bond pays tax on earnings at a flat 30%. After ten years, withdrawals from the bond are tax-free to the owner, however before this time earnings on withdrawals may be taxed personally and earnings will continue to be taxed in the bond.

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Strategy 4

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WEALTHBUILDER

Example strategy 4A

... An early withdrawal of funds

The 'just in case' happended

Issue

Harry and Millie are four years into saving for their first home utilising the structure of the investment bond (see example strategy 4).

The **just in case** happened!

Millie is expecting their first child so they are now looking at buying their first home as soon as possible.

Harry and Millie now want to access the funds in the investment bond early.

Solution

This is as simple as making a withdrawal.

- As Millie will be finishing up work half way through the financial year, her taxable income will be greatly reduced.
- Millie's employment income for the year is expected to be $48,000.

Outcome

From a taxation perspective, the following will apply.

- They commenced the investment bond in January 2014 with an initial investment of $6,000 and have made monthly contributions of $500 since inception and have now contributed $28,000.
- The investment is now valued at $33,792 and they going to withdraw all funds.
- The growth component $5,792 ($33,792 less $28,000) will be 100% assessable for tax purposes.
- This will increase Millie's taxable income to $53,792 ($48,000 + $5,792). Before redeeming the bond, Millie's tax bill was estimated to be $7,827 but the additional income from the bond raises this to $9,912.12.
- Millie will however be entitled to a 30% rebate on the on this growth component for tax already paid on the investment. This will equate to a rebate of $1,737.60 ($5,792 x 30% = $1,737.60.)
- With the rebate applied, she will only have to pay another $347.52 (new tax bill of $9,912.12 – original tax of $7,827 – rebate from bond of $1737.60), which equates to 6% tax on the earnings of the investment bond.

Very tax-effective!!

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Strategy 4A