**IOOF**

# WEALTHBUILDER

## Example strategy 13

### Maximising the 125% rule

**Issue**

Margaret is 50 years old and wants to invest her savings as much as possible until she retires.

- Margaret is a successful fashion designer and is selling her label through a buy-out arrangement over the next nine years.
- Currently maximising her superannuation contributions caps
- through employer contributions and has no ability to make NCCs due to her balance.
- Owns her own home, and happily with no mortgage.
- She would prefer not to access her superannuation until absolutely necessary.

**Solution**

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

- Starting with an initial deposit of $5,000.
- Each month Margaret will contribute $250 to the investment bond and will increase in line with the 125% rule*.

Margaret has two options to consider when it comes to the 125% rule.

**Option 1:** Each month Margaret will contribute $250 to the investment bond and will increase her monthly contributions in line with the 125% rule*.

**Option 2:** Margaret will receive a letter at the end of year one from her Investment Bond provider. She will have the added opportunity to maximise the 125% rule* by making an additional lump sum payment of 125% on her initial deposit using the proceeds from her label sale.

Each year Margaret will sit down and decide if she can manage the 125% increase, either for option 1 or 2.

* You can invest up to 125% of previous year's contribution(s) and still retain the original investment start date for tax purposes.

**Outcome**

Margaret is now really making her savings work hard for her, with a simple investment saving solution in an investment bond.

- Margaret has the added investment incentive, by really maximising the 125% rule on her initial and regular contributions each year.
- Whilst holding investments in an investment bond, Margaret doesn't have to include investment growth or earnings from her bond in her personal tax returns.
- Margaret also has the bonus of always having 100% access to his funds.

Furthermore, Margaret has the added incentive that after 10 years, she will never have any personal tax liability on the growth and earning of their 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**

## Option 1

### Utilising the 125% rule on Margaret's regular monthly contributions

## Investment details for Margaret:

**Initial Investment:** $5,000

**Monthly contributions:** $250 (plus applying the 125% rule)

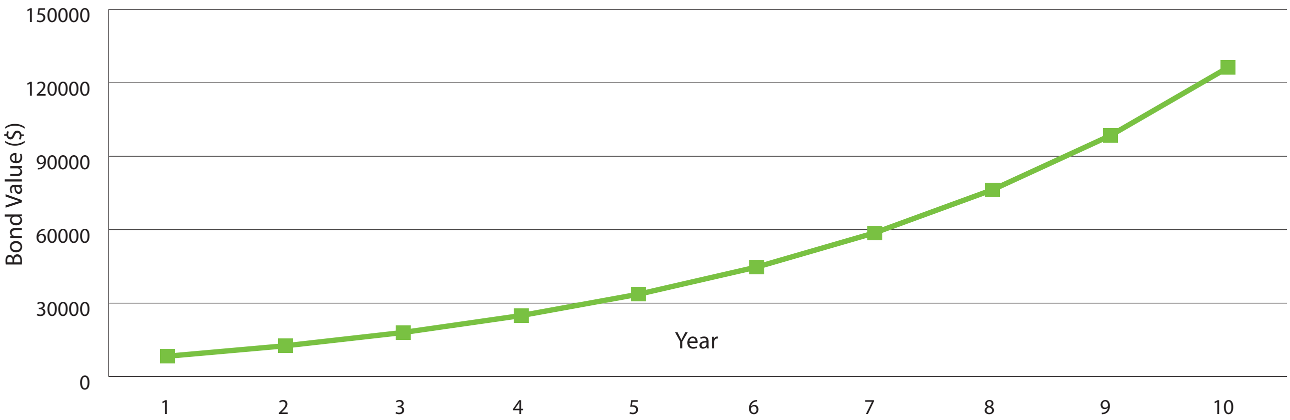
**Net return:** 5% (after fees and taxes)[1]

**Remember, after 10 years there will be no personal tax liability on the growth and earnings of the investment.**

## Projection to Year 10:

| Years | 10 |
|---|---|
| Contributions | $104,759 |
| **Growth** | **$21,497** |
| Value of bond | $126,256 |
| **Tax free benefit after 20 years[2]** | **$126,256** |

## Year by year projections (in future dollars):




| Year | Balance at start of year | Contributions | Balance at end of year |
|---|---|---|---|
| Year 1 | $0 | $8,000 | $8,324 |
| Year 2 | $8,324 | $3,750 | $12,583 |
| Year 3 | $12,583 | $4,688 | $18,015 |
| Year 4 | $18,015 | $5,859 | $24,920 |
| Year 5 | $24,920 | $7,324 | $33,671 |
| Year 6 | $33,671 | $9,155 | $44,736 |
| Year 7 | $44,736 | $11,444 | $58,700 |
| Year 8 | $58,700 | $14,305 | $76,293 |
| Year 9 | $76,293 | $17,881 | $98,431 |
| Year 10 | $98,431 | $22,352 | $126,256 |

## Option 2

### Maximising the 125% rule by adding 125% on her initial and regular contributions

### Investment details for Margaret:

**Initial Investment:** $5,000

**Monthly contributions:** $250 (plus applying the 125% rule)

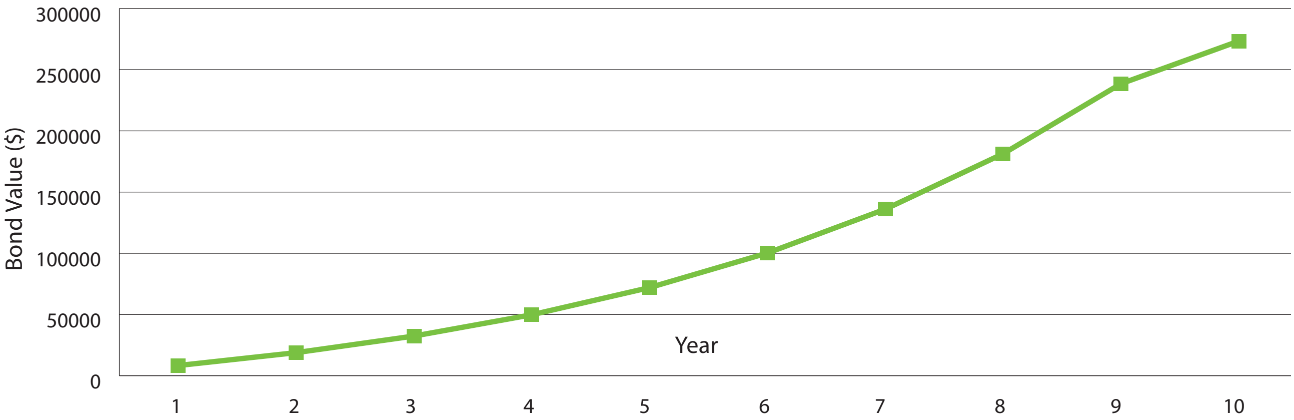
**Net return:** 5% (after fees and taxes)[1]

**Remember, after 10 years there will be no personal tax liability on the growth and earnings of the investment.**

### Projection to Year 10:

| Years | 10 |
|---|---|
| Contributions | $228,755 |
| **Growth** | **$44,582** |
| Value of bond | $273,337 |
| **Tax free benefit after 20 years[2]** | **$273,337** |

## Year by year projections (in future dollars):




| Year | Balance at start of year | Contributions | | | Balance at end of year |
|---|---|---|---|---|---|
| | | Monthly | Lump sum | Total | |
| Year 1 | $0 | $8,000.0 | | $8,000 | $8,324 |
| Year 2 | $8,324 | $3,750.0 | $6,250.0 | $10,000 | $18,833 |
| Year 3 | $18,833 | $4,688.0 | $7,812.0 | $12,500 | $32,390 |
| Year 4 | $32,390 | $5,860.0 | $9,765.0 | $15,625 | $49,778 |
| Year 5 | $49,778 | $7,325.0 | $12,206.0 | $19,531 | $71,978 |
| Year 6 | $71,978 | $9,156.0 | $15,257.0 | $24,413 | $100,216 |
| Year 7 | $100,216 | $11,445.0 | $19,071.0 | $30,516 | $136,024 |
| Year 8 | $136,024 | $14,306.0 | $23,839.0 | $38,145 | $181,322 |
| Year 9 | $181,322 | $17,883.0 | $29,798.0 | $47,681 | $238,508 |
| Year 10 | $238,508 | $22,354.0 | | $22,354 | $273,337 |

**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.