



IOOF

# WEALTHBUILDER

## Example strategy 11

### Great Grandma Ruby's legacy (Child Advancement Policy)



Issue

Ruby is 82 and her first great-grandchild, Bella has just turned one. Ruby is very excited and for her first birthday would like to leave her a legacy by giving Bella a special first birthday present.

- She would like to set up an investment for Bella, but for the investment to be in her name.
- Ruby also wants Bella only able to access these funds when she turns 21 years of age, when she feels she may be more financially mature and be able to invest or use the funds more wisely.



Solution

A solution could be to utilise the simple tax-effective structure of an investment bond. It also enables the proceeds to be passed onto Ruby's great-granddaughter by utilising the Child Advancement Policy (CAP) where she can nominate the vesting age of 21 years.

- Make a once off deposit of \$5,000
- A CAP allows for the automatic transfer of the policy to Bella on her 21st birthday. Even if Ruby passes away her Estate can continue holding the policy until it vests.

(Note the executor of the Estate can still sell out of the bond, it's just the proceeds would have to be used to benefit the child nominated under the policy)

A CAP can also only be held in one name of one investor with one life insured.



Outcome

- Ruby's wish to leave a legacy directly to her granddaughter has been achieved.
- The funds will remain invested until her great-granddaughter, Bella reaches 21, the vesting age nominated by Ruby (as the CAP has been implemented).
- Even more advantageous is that the investment bonds tax history is also transferred and the original capital plus investment earnings are tax free.

Turn overleaf to discover the calculations behind this strategy utilising the IOOF WealthBuilder calculator, which can be found at [www.ioof.com.au/calculators](http://www.ioof.com.au/calculators)

Ruby has successfully set up a legacy to her great-grandson and has utilised a CAP.

### Investment details for Ruby:

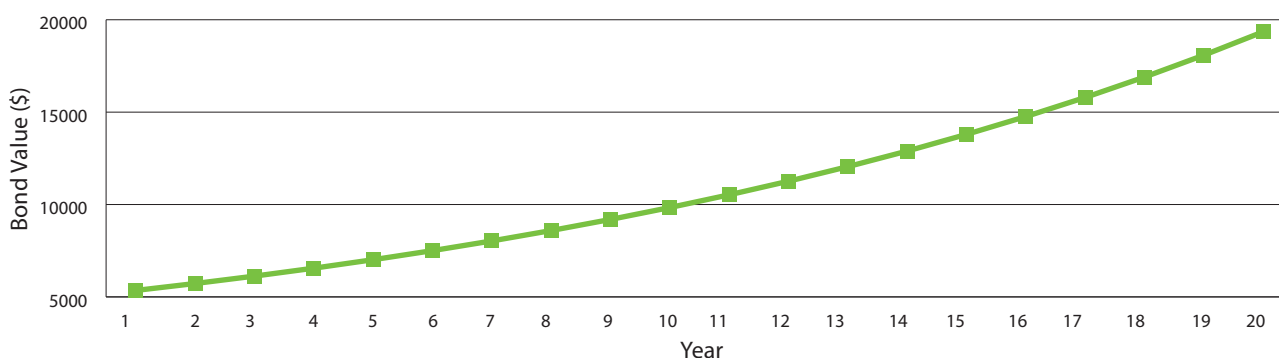
Initial Investment: \$5,000  
 Monthly contributions: Zero  
 Net return: 7% (after fees and taxes)<sup>1</sup>

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

### Projection to Year 20:

Years	20
Contributions	\$5,000
<b>Growth</b>	<b>\$14,349</b>
Value of bond	\$19,349
<b>Tax free benefit after 20 years<sup>2</sup></b>	<b>\$19,349</b>

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



Year	Balance at start of year	Contributions	Balance at end of year
Year 1	\$0	\$5,000	\$5,350
Year 2	\$5,350	\$0	\$5,725
Year 3	\$5,725	\$0	\$6,125
Year 4	\$6,125	\$0	\$6,554
Year 5	\$6,554	\$0	\$7,013
Year 6	\$7,013	\$0	\$7,504
Year 7	\$7,504	\$0	\$8,029
Year 8	\$8,029	\$0	\$8,591
Year 9	\$8,591	\$0	\$9,192
Year 10	\$9,192	\$0	\$9,836
Year 11	\$9,836	\$0	\$10,525
Year 12	\$10,525	\$0	\$11,261
Year 13	\$11,261	\$0	\$12,050
Year 14	\$12,050	\$0	\$12,893
Year 15	\$12,893	\$0	\$13,796
Year 16	\$13,796	\$0	\$14,761
Year 17	\$14,761	\$0	\$15,794
Year 18	\$15,794	\$0	\$16,900
Year 19	\$16,900	\$0	\$18,083
Year 20	\$18,083	\$0	\$19,349

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](http://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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