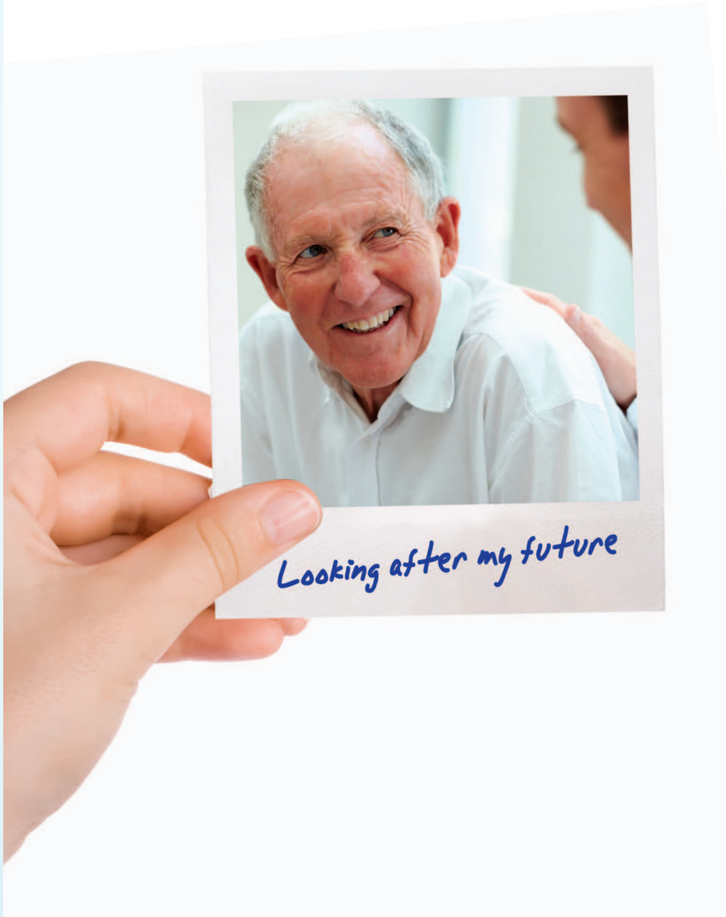
FactFile

Bonds

Bonds are investments made with a single (or regular premium) payment and have a nominal 10 year term. The range of bonds include investment bonds, friendly society bonds and insurance bonds which have access to a range of investment options. Bonds are most suitable for accumulating money, but not for providing regular income payments.



Unlike traditional investment products, such as unit trusts, bonds are a "tax paid" investment. This means that the tax is actually paid on investment earnings, at the applicable company rate of 30%, by the financial institution on the bonds before the earnings are added to your account.

A bond does not "distribute" regular income to the investor. Instead, growth is allocated to the investor's bond account periodically (either each year as "bonuses" or daily if the bond's value is expressed as a unit price), and the growth is effectively reinvested to achieve a compounding effect. The investor does not pay tax on the earnings at their marginal tax rate.

125% Rule

Bonds have a valuable taxation status that will not be jeopardised by making additional investment contributions, provided these do not exceed 125% of the level of contributions made in the previous bond year.
This is called the 125% Rule.

The 125% Rule can increase a bond's tax effectiveness. The attraction of using the 125% Rule is that when making add on lump sum investments (or contributing to a savings plan), ever increasing levels of additional contributions can be made closer and closer to the bonds optimal post 10 year period, after which all investment growth is totally exempt from personal tax. For example, if $10,000 is invested in year one, $12,500 (125% * 10,000) may be invested in year 2, and so on.

If the term of the bond is extended beyond 10 years, you can continue to take advantage of the 125% Rule. However, if a contribution is not made in any one year, any further contribution will start the 10 year period again for the whole invested amount.

Estate Planning

From an estate planning perspective, the person purchasing the bond is the policy owner and generally the life insured. When a bond is taken out, a life to be insured and a beneficiary are nominated. If the life insured dies, the full surrender value is paid to either the policy owner (if different from the life insured) or to nominated beneficiaries (if the policy owner is the same as the life insured). The owner is able to nominate a beneficiary who will receive the proceeds on the death of the life insured. This means the proceeds will be paid directly to the nominated beneficiary/ies and will not form part of the deceased's estate assets. This provides certainty as to who will receive funds on death. The proceeds will be received tax free by the nominated beneficiary/ies, regardless of the length of time the bond has been held.

Alternatively, if no beneficiary has been nominated, upon death the proceeds will form part of the deceased's estate, and be distributed to the beneficiary/ies in accordance with the Will.

Taxation

A tax offset is available for withdrawals made before 10 years. If withdrawals take place before the 10 years is up, a percentage of the earnings will be assessable for tax. You only pay personal income tax when you withdraw your money. This will depend on your tax rate, the tax offset available from tax already paid by the financial institution and the timing of the withdrawal.

When Withdrawn	Result
In the first 8 years	All earnings taxed at investor's marginal tax rate with tax offset of 30%
In the 9th year	2/3rds of earnings taxed at investor's marginal tax rate with tax offset of 30%
In the 10th year	1/3rd of earnings taxed at investor's marginal tax rate with tax offset of 30%
After 10 years	All bond earnings are tax paid
Death	Tax free to estate

After 10 years have passed from the time of taking out the policy, the investor may sell the investment without having to pay any further tax on the bonuses. There is no requirement to cash it in though so you can leave the policy where it is if you want to.

Security and Risk

The level of security depends upon the type of bond and the strength of the institution invested in.

- **Capital Guaranteed Bonds** provide a guaranteed return of money and may guarantee earnings once credited to the bonds. There is usually no guarantee of the earnings rate. If investors have only small amounts to invest or can not replace lost capital, they should favour capital guaranteed bonds.
- **Managed or Growth Bonds** are market linked bonds and their value will rise and fall with market changes. They usually invest in higher risk assets, such as shares, which have a potential for greater gain as well as loss.
- **Capital Secure and Capital Stable Bonds** are also market linked but mainly invest in lower risk assets, such as government bonds, and have limited exposure to shares. They are not guaranteed and the value of these bonds can also rise and fall.

To locate a Consultum Financial Adviser who can assist you with your financial planning needs, visit www.consultum.com.au

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