Did you know?

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Investment Growth Bond for the calculating adviser

Wednesday, 4 March 2009 saw the launch of CommInsure's Investment Growth Bond (CIGB) Illustrative Calculator. This launch was quite timely, given that in late February the CIGB won the inaugural 2008 Investment Bonds Award, awarded by Plan for Life and the Association of Financial Advisers.

The CIGB calculator is designed to show the withdrawal benefits of the investment bond, as well as the impact of contribution and drawdown strategies. It can estimate a client's net investment benefit (after fees and taxes) over a number of projected withdrawal points over a period of up to 20 years. The calculator illustrates some, but not all, of the CIGB's many features and benefits. Advisers should therefore refer to the current Product Disclosure Statement for more information

Key strategies

The Illustrative Calculator was designed with three key strategies in mind:

1. A single premium (lump-sum) premium investment with provision for planned partial withdrawals,
2. A savings plan showing the growth that can be achieved through a regular investment strategy,
3. An income/drawdown strategy, where there would be a large upfront investment (premium) followed by a series of regular withdrawals (monthly, quarterly, half-yearly, or yearly – but expressed annually).

Advisers can also use the calculator for scenario testing (for savings, education, sinking funds, even retirement planning), as well as illustrating the impact of fees on the end results.

Using the calculator

The graphic component of the Illustrative Calculator is divided into Inputs on the left and Outputs on the right. The Inputs section is separated into 5 sections, each having yellow and black fields. The yellow fields do not allow inputs. Some fields provide small red triangles in the top right-hand corner. These provide explanatory notes and can be read by moving your cursor over the triangle.

Inputs (sections)

- **Life company:** the **Fees** field has the current CIGB fee of 1.5%. This may be changed if a different fee is required, and will of course impact on illustrated returns. Note that the calculator applies one single fee.
- **Investor:** insert the client's current marginal tax rate (MTR) (inclusive of Medicare levy). The calculator allows one change to the client's MTR over the investment period, with the adviser specifying the time and new rate, which can incorporate an expected change in the client's circumstances (**future tax rate)**.
- **Investment Options:** insert the proposed percentage invested in each option (these reflect the existing CIGB options). Enter '0%' for any investment option that is not required. A red alert message will be generated if the total does not add up to 100%.
- **Returns:** enter the projected annual **income returns** and **capital returns** for each relevant asset class, as well as the proposed annual percentage of **portfolio turnover** for shares and property. The projected returns and portfolio turnover should be based on individual AFSL guidelines, or alternatively, consult ASIC's FIDO website http://www.fido.asic.gov.au/fido/fido.nsf/FIDO%20CalcW?readForm&title=Managed%20funds%20calculator – which provides acceptable returns for managed investments. These currently range from 4.5% for cash to 8.5% for growth options.
- **Weighted Average Asset Allocation:** this column**,** which cannot be modified, shows the asset allocation based on the combination of investment options selected in the Investment Options section. It uses the

asset allocation of each investment option as at 30 June 2008. The **Total Return** column cannot be modified and displays the total annual percentage return, which is the sum of the **income return**, the **capital return** and any additional franking applicable to Australian shares. Dividends paid on Australian equities are assumed to be 80% franked. The **Franking** field shows the additional return attributable to franking as a percentage. The **Income Inclusive of Franking** column shows the total income return plus additional franking expressed as a percentage

- **Cash flow:** insert the annual contribution and withdrawal amounts as required. Withdrawal amounts should be entered using a negative (preceding minus sign) value. Note that the calculator takes account of the 125% contribution rule, and identifies a breach and the subsequent impact on the CIGB tax year.

Outputs

The calculator results are displayed in the Outputs section of the calculator, both numerically and graphically (for net surrender values only), for up to 20 years. Columns show **Withdrawals; Tax on Withdrawal; Net Withdrawal**; and **Net Surrender Value**.

- The **Tax on Withdrawal** column (which is illustrative only and depends on the client's personal circumstances) shows a negative value if the client has a tax liability. In this case, this is expressed as a negative number, and when subtracted from the **withdrawal** amount, equals the **net withdrawal**. However, there may be a tax credit if the client's MTR is less than the life company rate, in which case the **tax on withdrawal** is expressed as a positive number, when added to the **withdrawal** amount, equals the **net withdrawal**. Note that a positive number means that this amount may be used as a tax offset against other income (but see limitations below). The **net surrender value** is the surrender value at the end of the year after tax. Again, there may be a tax credit if the client's MTR is less than the life company rate.

Limitations

Advisers should be aware that the calculator has a few limitations, which may impact an individual client's situation. One limitation which may affect the accuracy of calculations is the assumption that the client will always have a sufficient tax liability to fully utilise the 30% tax offset generated on taxable withdrawal amounts. If the assumption is incorrect (e.g. where the client's only other income is a tax-free pension), the expected tax offset benefit will be overstated, because the offset is not a refundable tax benefit.

Another tax rate-related assumption is that taxable withdrawal (surrender) amounts do not cause the client to move into a higher marginal tax bracket. The calculator has not catered for a savings plan strategy which includes both an inflow and an outflow in a particular year. In such circumstances, the 125% rule may be triggered in the calculator model, whereas in a real life situation the premiums (contributions) would be analysed on a gross basis and may not impact the 125% rule. Conversely, there may be situations where the 125% rule is not triggered in the model because of a combination of contributions and withdrawals, where actually a breach of the rule would take place because contributions have exceeded 125% of the previous year's contributions.

Summary

CommInsure's new IGB Illustrative Calculator shows how your clients can increase wealth and reduce tax all year round using contribution and drawdown strategies with insurance bonds. Contact Growth Services, either on our hotline (1800 761 067) or email address (bgs@cba.com.au), to receive a copy of the CIGB calculator and user guide, or if you have any questions.