Did you know?

Alex Koodrin
National Technical Manager

11 October 2013

Death is certain – but is it guaranteed?

One of the issues facing elderly clients (and their advisers) is mortality and investment risk. Uncertainty about how long an investment will continue, together with its volatility, may lead clients and advisers towards cash or 'non-growth' investments, regardless of whether these investments are to be used as an income stream or left as a legacy to beneficiaries. Is there an alternative?

CommInsure's Investment Growth Bond (the bond) is generally a longer term tax-effective investment. However, as a life insurance product, it also has advantages in the areas of estate planning and wealth transfer, again, in a tax-effective manner. One of these advantages is the bond's Death Benefit Guarantee, which we understand is unique in the industry.

The Death Benefit Guarantee

CommInsure guarantees that if the last surviving life insured dies on or prior to his or her 99th birthday, it will pay the greater of the following amounts as at the day all its claim requirements are met:

a) The cash value of the bond. (The cash value is the number of units held in the bond multiplied by the unit price applicable at the relevant date).

OR

b) The lesser of the Net Contribution Value and the Maximum Amount.
The Net Contribution Value is the total value of all deposits less any withdrawals that have occurred during the life of the policy and less any Switching fees, Withdrawal fees and Adviser Service Fees deducted during the life of the policy. The Maximum Amount is $1 million or such other amount we advise you in writing. Any decrease in this Maximum Amount would only apply to new Policy Owners from the date of the change.

Deposits are the initial contribution plus any subsequent contributions made.

To qualify for the Death Benefit Guarantee, the youngest Life Insured on the policy must be aged less than 85 years of age at policy commencement.

Example:

a) the Cash value
- Cash value = 650,000 units x $1.36 unit price = $884,000
OR

b) the lesser of the Net Contribution Value and the Maximum Amount
- Net Contribution Value = $800,000 (initial contribution) + $250,000 (additional contributions) - $10,000 (withdrawals) = $1,040,000
- Maximum Amount = $1,000,000

In this example CommInsure would pay $1,000,000. The $116,000 difference between this amount and the Cash value represents the Death Benefit Guarantee.[1]

How could this Death Benefit Guarantee work in practice? Take Mary, a 78-year old widow, who has a lump sum of $500,000 to invest. Apart from this lump sum, Mary has other investments to draw on to cover her living

[1] Page 12, CommInsure Investment Growth Bond Product Disclosure Statement, preparation date: 18 March 2013

expenses. Mary has a life expectancy of 11.35 years[2], and has a conservative investment risk profile. She also has two adult children, whom she consults regarding her investments, and five grandchildren. In reality, her children would like Mary to have a more aggressive investment risk profile – as they are likely to inherit this asset upon Mary's death – but they understand that a growth investment would be subject to a downturn in the economy, potentially leading to a loss of capital, which may not be recouped if Mary died prematurely.

After discussing her situation with her financial adviser and her family, Mary decides to invest her $500,000 in growth investment options of CommInsure's Investment Growth Bond. If Mary meets or exceeds her life expectancy, the likelihood is that an investment in growth assets will generally outperform conservative or defensive investments over the long term. If Mary unfortunately dies soon after the commencement of her bond investment (or in fact anytime), the de facto guarantee of capital under the bond's Death Benefit Guarantee will ensure that any market downturn since commencement will not affect Mary's capital and the proceeds will pass to her beneficiaries or estate tax free, thus providing both her and her beneficiaries with peace of mind.

In addition, the Death Benefit Guarantee provides a living benefit to some of our older clients. If the last surviving life insured reaches his or her 99th birthday, the bond owner may request a full withdrawal of the bond and the Death Benefit Guarantee would still apply. The effective date of the Death Benefit Guarantee calculation will be the date of the 99th birthday of the last surviving life insured. Where the last surviving Life Insured dies after his/her 99th birthday, the cash value of the bond will be payable, and the Death Benefit Guarantee does not apply.

Summary

Safety and security is an important consideration for many people, especially when the market is volatile.

Investors can rest assured in the knowledge that the Bond's unique Death Benefit Guarantee protects their capital in the event of death.

[2] Australian Life Tables, 2005-07