

# **Benefit of Guarantees**

*Investment Growth Bond strategy paper*

*Adviser use only*

# At a glance

*This paper illustrates how the Resolution Life Investment Growth Bond's (the Bond) guarantee features can protect a client's capital from market risk.*

This paper focuses on:

- What are investment bonds?
- Resolution Life's Investment Growth Bond
- Guarantees that protect capital from market risk
- Case studies

## What are investment bonds?

Investment bonds, also called insurance bonds are a flexible, tax-paid product that suits a wide range of needs and different situations. Investment bonds combine features of a managed fund and a life insurance policy, with the added benefit of the investment bond provider paying 30% tax on any earnings in the bond rather than an individual paying tax on earnings at their marginal tax rate.

Like a managed fund, clients can select from investment options that invest in assets such as shares, fixed income, property and cash.

They're easy to establish and if the client has satisfied the 125% rule (where each year's contributions do not exceed 125% of the previous year's contributions) and held it for 10 years ("10 year period"), any withdrawals made will not attract personal income tax.

For clients who withdraw before the 10 year period is satisfied, all or part of the profit portion or investment earnings may be assessable for tax. If so, a tax offset of 30% is available to compensate for the tax-paid by the investment bond provider.

# Resolution Life's Investment Growth Bond

Resolution Life's Investment Growth Bond (the Bond) has been awarded the AFA Investment Bond of the Year award for the last 15 years running<sup>1</sup> and offers benefits beyond those of most investment bonds.<sup>2</sup>

## Guarantees that protect capital from market risk

- **Investment option guarantees** are designed to provide certainty around the minimum value of a client's holding in an investment option. These are offered on four of the nine investment options. The nature of the guarantee differs across the Cash, Global Fixed Income, Conservative and Diversified investment options.<sup>3</sup>
- The **Death Benefit Guarantee** provides certainty as to the minimum amount that will be paid on the death of the last surviving life insured, subject to certain requirements.

For more information on guarantees refer to 'Guarantees that protect capital from market risk' on page 4.

In addition to the guarantee features described above, the Bond offers a number of additional features.

## A range of investment choices

- Suitable for a wide range of investment risk profiles with four multi-sector and five single-sector investment options.
- Switch investment options at any time with no fee and no personal capital gains tax impacts.
- Clients can tailor their own diversified portfolio from a mix of the single-sector options.

## Easy investing and withdrawals

- There is a minimum initial investment of \$1,000 and minimum \$200 for additional contributions.
- Access to funds at any time (withdrawals before the 10 year period may trigger a tax liability on the profit element of the investment, although clients may be able to take advantage of the 30% tax offset).
- Minimum withdrawal of \$1,000 (\$500 for automatic withdrawals).
- Automatic withdrawal facility for balances over \$10,000.

## Competitive fees

- No establishment, withdrawal or switching fees.
- Management fees range from 0.85 to 1.5% depending on the investment option chosen.
- Adviser Service Fees, agreed between you and your clients, may be deducted from the Bond as a one-off and/or an ongoing fee.

## Investing for children

- Children as young as 10 can invest with parental/guardian consent.
- An adult can establish a Child Advancement Policy on behalf of a child under 16 years of age with the ownership of the Bond transferring to the child at a nominated age up to 25 years.

## Certainty for estate planning and wealth transfer

- Death benefits are tax-paid to a nominated beneficiary regardless of other estate planning arrangements, reducing the risk of estate disputes.<sup>4</sup>

## Our awards

We're proud winners of the Association of Financial Advisers (AFA) Investment Bond Award 15 years running (2008 through to 2022).<sup>1</sup>

We're also proud winners of the 2020, 2021, 2022 and 2023 Plan For Life Investment Bond Excellence Awards.<sup>2</sup>

<sup>1</sup> AFA Investment Bond of the Year winner from 2008 through to 2023. Benchmarked on scores for financial, market and product strength factors.

<sup>2</sup> Based on Strategic Insight's 2023 Benchmark report.

<sup>3</sup> If you withdraw or switch units out of the investment option after they've been held by you for a minimum period (two years for Global Fixed Income and three years for the Conservative and Diversified options), the unit price used to calculate the withdrawal or switch will be at least equal to the price at the time you were allocated those units or switched into this option. The Cash option offers a guarantee that the unit price will never fall irrespective of the length of time the Resolution Life Investment Growth Bond has been held.

<sup>4</sup> Where a beneficiary is nominated, the bond proceeds will not be subject to challenges to the client's estate, as they will not form part of the estate assets (except possibly in NSW where a bond may form part of a 'notional estate').

# Guarantees that protect capital from market risk

Safety and security are important considerations for many people, especially when the market is volatile. The Resolution Life Investment Growth Bond offers two key features that differentiate it from other investment bond providers in the market and are a large reason why the Bond has been awarded the AFA Investment Bond of the Year award for the last 15 years running.<sup>5</sup>

## Investment option guarantees

There are nine investment options, which are managed by a team of Resolution Life investment specialists responsible for managing the selection and ongoing review of appointed investment managers, as well as determining the asset allocation.

An investment option guarantee is offered on four of the nine investment options and is designed to provide certainty as to the minimum value of a client's holdings in that option. Figure 1 below details each of the investment option guarantees in full.

Figure 1

### Investment option guarantees

Guarantees are also provided by us for four investment options.

Investment option	What is guaranteed?
Cash	The unit price will never fall. This means any rise in unit price since the units were purchased is also guaranteed.
Global Fixed Income	If your clients withdraw or switch units out of this investment option after they've been <b>held for at least two years</b> , the unit price used to calculate the value of the withdrawal or switch will be at least equal to the price at the time your clients were allocated those units or switched into this option. <sup>6</sup>
Conservative	If your clients withdraw or switch units out of this investment option after <b>they've held them for at least three years</b> , the unit price used to calculate the value of the withdrawal or switch will be at least equal to the price at the time your clients were allocated those units or switched into this option. <sup>6</sup>
Diversified	If your clients withdraw or switch units out of this investment option after they've been <b>held for at least three years</b> , the unit price used to calculate the value of the withdrawal or switch will be at least equal to the price at the time you were allocated those units or switched into this option. <sup>6</sup>

Except to the extent that has just been stated:

- your investment with us is not guaranteed
- the value of your investment can rise and fall on a day-to-day basis.

## Case study – the benefits of an investment option guarantee

### John, 42 years

John wants to invest \$100,000 for the medium term and at some stage use part of the proceeds to purchase a new car. In volatile market conditions, he is looking for capital security but also exposure to some growth assets to grow his investment.

John decides to invest \$100,000 in the Resolution Life's Investment Growth Bond Diversified option, purchasing 100,000 units at a unit price of \$1.

#### Scenario 1

Four years later, he decides to withdraw 50,000 units and use the proceeds towards a new car. However due to volatile market conditions, the unit price of the investment option has reduced to \$0.78 per unit.

#### Outcome

As the withdrawal occurs after the Diversified investment option's guarantee period of at least three years, he receives a withdrawal amount of \$50,000 (50,000 x \$1) instead of \$39,000 (50,000 x \$0.78). John has benefited from the investment option guarantee, which has protected his capital from market risk. And due to there being no assessable earnings, he does not have any personal tax liability arising from the withdrawal, even if it occurs within the 10 year period.

<sup>5</sup> Based on Strategic Insight's 2022 Benchmark report.

<sup>6</sup> Withdrawals or switches before the years mentioned above will use the unit price calculated for the day on which the withdrawal or switch occurs.

### Scenario 2

After six years John decides to withdraw his remaining 50,000 units. However this time due to favourable market conditions, the unit price has increased to \$1.50 per unit.

### Outcome

As the unit price at the time of withdrawal (\$1.50) is higher than the guaranteed unit price (\$1.00), John receives a withdrawal amount of \$75,000 (50,000 x \$1.50). As the withdrawal is within the 10 year period, the profit portion of the withdrawal may be assessable for tax at John's marginal tax rate. If so, a 30% tax offset is available to him to compensate for the tax-paid by the investment bond provider.

## Death Benefit Guarantee

The Death Benefit Guarantee provides certainty on the minimum amount that will be paid on the death of the last surviving life insured. To qualify for the guarantee, the youngest life insured on the policy must be aged less than 85 years at policy commencement. If the last surviving life insured dies on or prior to their 99th birthday, we will pay the greater of the following amounts:

a. the cash value of the bond,

OR

b. the lesser of the Net Contribution Value<sup>7</sup> and the maximum amount (the maximum amount is \$1 million per life insured).

### Case study – the Death Benefit Guarantee

#### Mary, 80 years

Mary receives a windfall and wants to invest part of it to take advantage of the positive investment markets. She is not planning on making any withdrawals and wants the proceeds to ultimately be distributed through her estate, to her beneficiaries. She also prefers an investment that does not require any tax reporting.

Mary's adviser proposes she invest in a Resolution Life Investment Growth Bond, as it also offers a death benefit guarantee, which will provide certainty as to the minimum amount that will be paid on her death.

So Mary establishes the Bond with an initial contribution of \$120,000 and nominates her Estate as the beneficiary. Over the next few years, she makes a \$50,000 additional

contribution, withdraws \$9,000 and pays her adviser a \$1,000 Adviser Service Fee payment.

However 10 years on from her initial investment, due to very volatile market conditions, the total cash value of her bond reduces to \$125,000. It is also at this time that Mary unfortunately passes away.

#### Outcome

At the time of death, her Net Contribution Value is calculated at \$160,000 (\$120,000 + \$50,000 – \$9,000 – \$1,000), which is greater than the bond's cash value of \$125,000. So the death benefit payable to Mary's estate is the greater amount of \$160,000. This \$35,000 difference represents the death benefit guarantee.

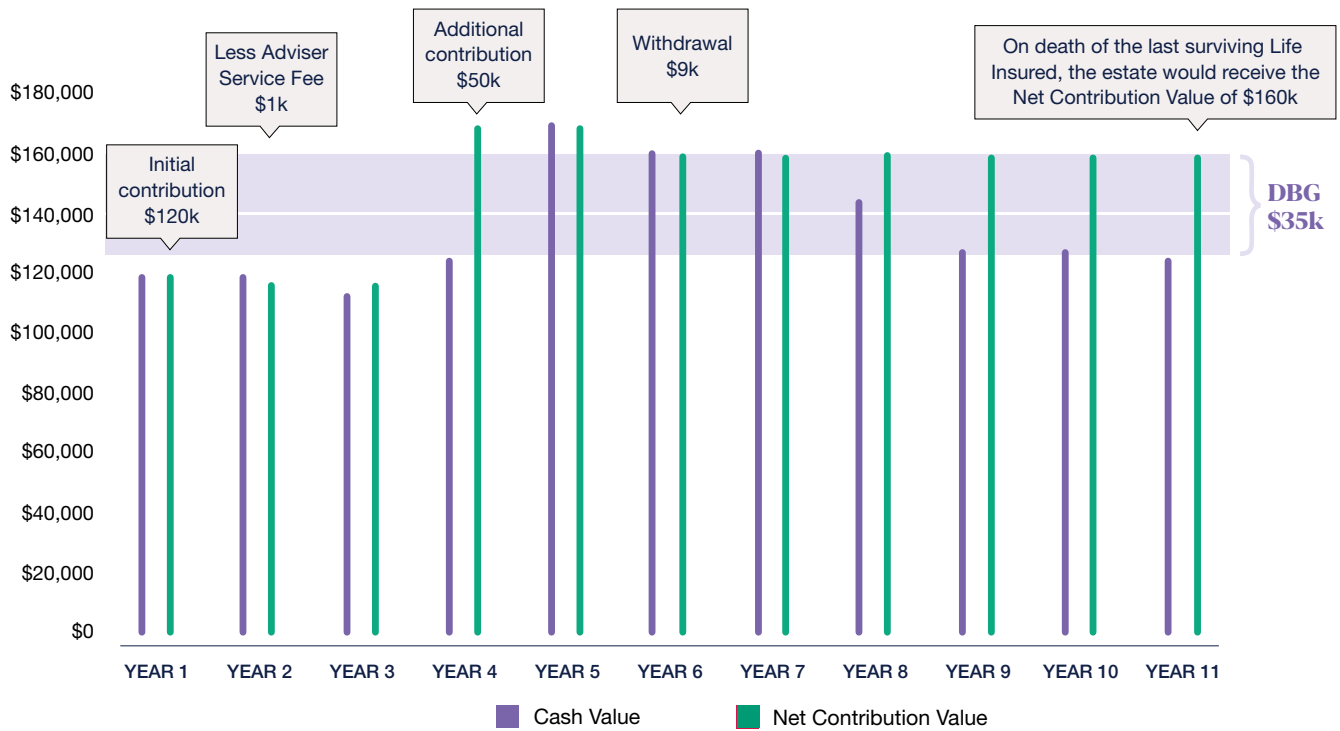
This is also illustrated in Figure 2 below.

<sup>7</sup> The Net Contribution Value is the total of all deposits less withdrawal during the policy and less any switching fees, withdrawal and adviser service fees.

Figure 2

Death Benefit Guarantee

Example – How the Death Benefit Guarantee works



On the death of the last surviving life insured we will pay the greater of 'a' or 'b'.

a. The cash value

$$50,000 \text{ units} \times \$2.50 \text{ unit price} = \$125,000$$

OR

b. The lesser of the Net Contribution Value and the Maximum Amount

$$\$120,000 \text{ (initial contribution)} + \$50,000 \text{ (additional contributions)} - \$9,000 \text{ (withdrawals)} - \$1,000 \text{ (Adviser Service Fees)} = \$160,000$$

**In the example we would pay \$160,000.**  
**The \$35,000 difference between this amount and the cash value represents the Death Benefit Guarantee.**

*For more information about how our Resolution Life's Investment Growth Bond could help your clients, please contact your Retirement Business Development Manager or call us on 133 731.*

**What you need to know**

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