Using investment bonds to fund education

Worried about funding your child's education?
Don't panic – a little bit of planning goes a long way

As we head into the tail end of the year, many parents are thinking about the onset of school fees – and how to afford them. Starting early and investing carefully is always best, but it's never too late to start a savings plan to cover them. Neil Rogan, General Manager of Investment Bonds for Centuria explains how funding your child's education with a tax-effective, flexible and manageable investment strategy is not as difficult as you might think.

Funding education for children is a problem that all parents eventually confront. Costs vary widely between the public and private sectors, but there is no such thing as a free education. The current cost of education can reach up to $30,000pa for private secondary school fees.

Education System	Starting from	Up to (primary)	Up to (secondary)
Government levy	$0	$1,000	$1,500
Catholic fees	$100	$5,000	$10,000
Private school fees	$5,000	$25,000	$30,000
Boarding fees	$9,000	$25,000	$25,00

Funding your child's education doesn't have to be difficult, but, as with all investing, the sooner you start the better. The trick is to determine the style of education you want your child to have, and how much you will realistically need to save for this. Then choose the investment approach most likely to help you achieve your goal.

Step one: Consider the costs of different schools

The first step is to look carefully at the different types of education available, and decide what you think would be best for your child and most realistic for your budget.

There are three main options: a public education, a catholic (or other religion-based) education, or a private education (of course, some private schools can also be religiously-affiliated). The catholic and private system are both fee-paying, but the fees in the catholic system are usually substantially less than those in the private system. Public education is the least expensive option, as is mostly funded by the Government.

Regardless of the style of education you choose, it's important to remember that tuition fees are not the only cost. Extras such as uniforms, stationery, extra-curricular activities and other incidentals can add significantly to the overall cost.

Centuria has been issuing investment bonds for 35 years. We have a great deal of experience calculating the cost of education, and have developed a Cost of Education Calculator to help you make your estimate as accurate as possible.

Step two: Choose an investment portfolio that matches your goals

Your choice of investment portfolio should be influenced by a number of factors – but the most important is your timeframe. The longer you have to invest, the greater the chance you will meet your goal, and the more flexibility you will have in choosing your portfolio.

Investing is all about risk and return. The higher the risk you take on, the higher the return you should expect, but again, the timeframe is all important. Equities, for example, which have historically performed well over the longer term, are more volatile over the short-term than some other asset classes such as fixed interest, making them better suited to the long-term investors.

Step three: Choose a flexible, tax-effective investment strategy

For a long-term financial goal like education or any other purpose, an investment strategy worth considering is one that allows you to contribute regularly and is tax-effective, but which you can essentially set and forget.

There are a number of investment strategies that will achieve one or perhaps two of these things, but if you are looking for the triumvirate, investment bonds fit the bill perfectly.

Investment bonds: Ideally suited to saving for education

Investment bonds are actually life insurance policies, with a life insured and a nominated beneficiary. In practise, however,

they operate like a tax-paid managed fund. You can choose from a range of underlying investment portfolios and risk profiles, ranging from equities to fixed interest, cash, or a mixture of each, depending on the amount of time you intend to invest and your goal.

You can start a Centuria investment bond with as little as $500, but there is no upper limit to how much you can invest in an investment bond, and you can contribute more to the bond each year – up to 125% of the previous year's contribution.

Tax-paid as you grow your investment

Investment bonds are referred to as 'tax-paid' because returns from the underlying investment portfolio are taxed within the bond structure at the company tax rate of 30% and are then re-invested in the bond. This means you may benefit from compounding returns, which will help you reach your goal more quickly. And if you choose an investment portfolio containing equities that pay franked dividends, the effective tax rate of your investment could be less than 30%. This rate compares very favourably to the top marginal rate on personal taxes, which can be as much as 49% including the Medicare levy.

You will not receive a distribution from the bond, which means you do not need to declare your investment in your personal tax return. Centuria pays the tax on returns from the underlying portfolio on your behalf, and you do not need to declare the bond for tax purposes or complete any annual paperwork.

The real bonus: All proceeds are tax-free after 10 years

If you hold your investment bond for 10 years, all proceeds are distributed to you without any further tax payable.

If, on the other hand, you need to access your investment before 10 years, it is easy to do so – however, depending on the timing, you may lose some or all of the tax-advantage.

What if I want the bond to be in my child's name?

A child aged 10 or older can be the owner of an investment bond, although they will only gain control of the bond and be able to decide how to spend the money once they turn 16.

This is why we suggest that it is often better to set the investment bond up in the name of a parent or grandparent. This means that there will be no penalty tax rates for children under the age of 18 (if they make withdrawals before 10 years) and the parent or grandparent stays in control of the bond and decides how the proceeds are spent.

It also means that you can start a bond for a child under the age of 10 – which is a good idea if you anticipate a high cost of education.

Centuria Investment Bonds

Investment bonds are an excellent tax-effective, long-term investment strategy. They can be used for any investment goal, make a sensible complementary strategy to super, and enable control, protection and certainty in estate planning. When it comes to education, they are the perfect tool. They allow for a 'set-and-forget' investment, to which you can contribute regularly, and which is tax-free in your hands after 10 years.

Centuria offers a range of funds across the risk/return curve with different investment objectives and strategies. You can find out more about each of the funds and how our investment bonds work on our website. Please also visit www.centuria.com.au where you will find detailed examples of how investment bonds work, as well as their different uses.

Start investing today.

Simple | Flexible | Versatile

Please note this is general information and does not consider the circumstances of any individual. It is based on an understanding of current legislation, but no warranty if given for its accuracy. Any person intending to act on this information should seek the assistance of a professional adviser.

If you would like to speak to one of our Investment Bond specialists call 1300 50 50 50 or for more information www.centuria.com.au/investment-bonds

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