

31 October 2014

Grandparents step in to fill the education savings gap

The September quarter CPI figures* show that over the past 12 months education costs have increased by 5.2 percent, second only to increases in the cost of alcohol and tobacco at 7.3 percent, says Mr Matt Walsh, head of Lifeplan.

Educating children is becoming an increasingly expensive business, and year on year the costs consistently outstrip inflation. Unfortunately on the education front, families educating their children are falling behind.

"More and more it would appear that grandparents are stepping in to fill the education savings gap," Mr Walsh says.

"Nearly one quarter (over 23%) of Lifeplan Funds Management's education policies are commenced by investors age 60 or over.

"The needs of retirees wanting to fund their grandchildren's education are twofold. Typically, these grandparents are seeking the ability to retain control and, if needed, access the investment for their own use should an unexpected situation arise. However, they are also concerned with ensuring they are not paying any unnecessary personal tax and protecting their entitlements, such as the Commonwealth Senior Health Card.

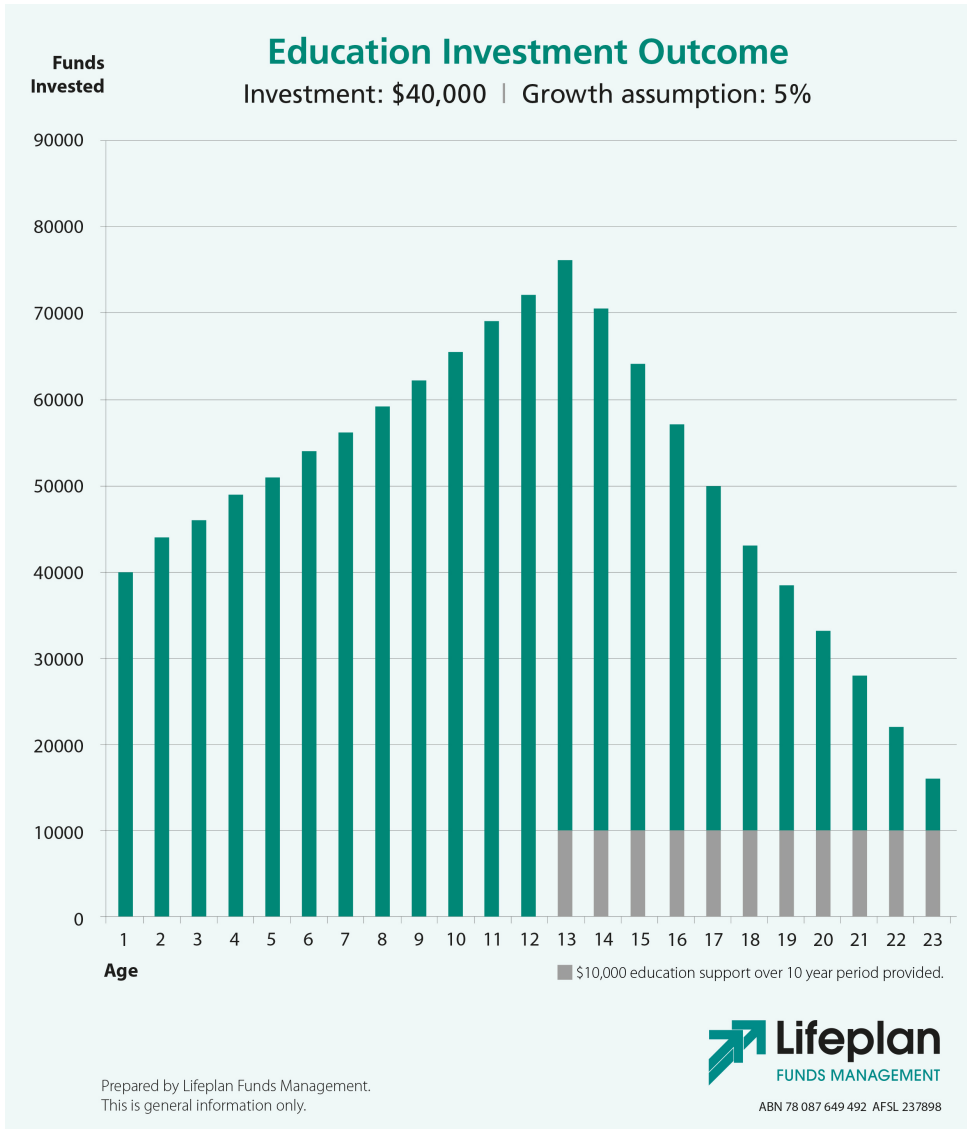
"Education funds, such as those on offer from Lifeplan Funds Management, are an attractive option, as it ticks these boxes for the grandparents and provides benefits for the grandchildren," Mr Walsh says.

The Lifeplan Education Investment Fund is a "scholarship plan" in accordance with the Income Tax Assessment Act 1997. This entitles Lifeplan to obtain a tax benefit, which is passed on to the investor, worth up to \$30 for every \$70 of earnings used to pay education expenses.

Other features of this type of investment include the ability to choose to withdraw funds from contributions and investment earnings, and no annual tax obligations for the investor or the nominated student, while the investment remains in the Fund.

Mr Walsh cites the example of John and Jennifer, grandparents to the newly born Max. They want to provide education support of \$10,000 each year of secondary education and for up to four years of tertiary – a total of 10 years.

If John and Jennifer invest \$40,000 in the Lifeplan Education Investment Fund, and can assume annual investment returns net of fees and taxes of around 5 per cent. The chart below shows the investment outcome at the end of the chosen period.



“The combination of the capital, the tax paid earnings and the education tax benefit provide the desired outcome, and a balance remains at the end of the term,” Mr Walsh says.

“Over the period of investment full access is available to the balance and in need, John and Jennifer are able to withdraw funds for non-education purposes.

“Based on their specific circumstances, no personal tax liability will be incurred on annual investment earnings. In addition, they are not required to include any investment return for ongoing access to entitlements such as the Commonwealth Senior Health Card.

“Provided their grandchild Max is not in receipt of any other investment income, he will not pay any tax on the education withdrawals.”

When Max’s education has ceased, John and Jennifer have a number of choices regarding any remaining investment balance.

They can:

- Leave the investment for any other future education Max may undertake.
- Retain for their own use.
- Cash out the balance (although they will not be eligible to receive the education tax benefit) and in the example, no personal tax would be payable.
- Transfer the ownership of the investment to Max for any ongoing tertiary studies. There are no tax implications to either John and Jennifer or Max for doing this; however, stamp duty may apply in some states.
- Change the nominated student beneficiary from Max to another grandchild.

“John and Jennifer are also able to nominate a plan guardian to provide greater certainty about who will look after the education fund should they die or become intellectually disabled.

“Additionally, beneficiaries can be nominated who would automatically receive any account balance should Max die after the death of John and Jennifer,” Mr Walsh concludes.

* <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

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Lifeplan Funds Management is a specialist business of Australian Unity Investments. It is a market leader in investment and funeral bonds, and a leading provider of education investment funds.

In deciding whether to acquire, hold or dispose of the product, you should obtain the current Product Disclosure Statement (PDS) and consider whether the product is appropriate for you. A copy of the PDS is available at www.australianunityinvestments.com.au or by calling 1300 1300 38.

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