



Investment Bonds:

A Modern Tool for Intergenerational Wealth Transfer.

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Abstract

Investment bonds have long existed as a flexible investment vehicle, but their role in intergenerational wealth transfer is often underestimated or overlooked by financial advisers. This is due mostly to investment bonds taking a back seat to large investment platforms dominating the landscape. As estate planning becomes increasingly complex amid evolving tax laws, family dynamics, and longevity, investment bonds offer unique benefits, combining tax efficiency, straightforward reporting, and capital growth potential within a single product. This article explores how investment bonds can be strategically employed to facilitate the seamless and tax-effective transfer of wealth across generations. It challenges conventional wisdom/myth that sees investment bonds viewed as merely “taxed at 30%” and “inaccessible” to many clients, instead positioning them as a contemporary, powerful estate planning tool. Practical case studies, legislative insights, and compliance considerations are included to help advisers integrate investment bonds confidently into their intergenerational planning strategies

Learning Outcomes

After reading this article, advisers should be able to:

1. Understand the structure and tax treatment of investment bonds and their relevance to intergenerational wealth transfer.
2. Identify client profiles for whom investment bonds provide significant estate planning advantages.
3. Explain the key benefits of investment bonds in minimising tax leakage and simplifying reporting obligations across generations.
4. Apply practical strategies to incorporate investment bonds alongside trusts, superannuation, and other estate tools.
5. Recognise common misconceptions about investment bonds and effectively educate clients and peers.
6. Navigate relevant legislative and compliance frameworks governing investment bonds in estate planning.

About KeyInvest

KeyInvest is a member-owned Australian friendly society established in 1878, with a proud history of helping individuals and families build, manage and protect their wealth. Specialising in investment bonds and funeral bonds, the KeyInvest Investment Bond offers a diverse, single sector and multi-manager investment menu, soon to be expanded to provide members with even greater choice.

Through ongoing engagement with financial advisers and licensees, KeyInvest continues to invest in its digital platform and adviser portal delivering streamlined application processing, enhanced client visibility and efficient administration to support advisers in recommending investment bond solutions that empower Australians to achieve their goals with confidence and clarity.

About the Author

Nick Heuzenroeder is Head of Product Innovation, Governance & Partnerships and a Responsible Manager for both KeyInvest and KeyInvest Managed Investments. With a background spanning financial advice, product innovation, investment management and business leadership, Nick brings a strong blend of technical expertise and strategic, relationship-led thinking. He plays a key role in strengthening governance frameworks, overseeing product and operational risk, and fostering partnerships that enhance outcomes for investors, advisers and distribution partners.



Introduction: Rethinking Investment Bonds in the Era of Intergenerational Planning

When advisers consider estate planning, typical tools include wills, testamentary trusts, family trusts, superannuation, and insurance structures. Investment bonds often fall off the radar, regarded as relics of the past or niche products for a narrow client segment. However, this perception overlooks the evolving role investment bonds can play in modern wealth transfer strategies. It is pleasing to see that the tides are changing, and an increasing number of advisers are adding investment bonds to their toolkit when making recommendations to their clients.

Far from being an outdated product, investment bonds combine simplicity, tax efficiency, and flexibility, addressing many complexities advisers and clients face in transferring wealth efficiently between generations. Their unique tax treatment (paying tax inside the bond at a maximum rate of 30%) can, in certain scenarios, result in an effective tax rate near zero. Furthermore, the ease of reporting and access to funds without triggering capital gains tax make investment bonds a particularly attractive complement to other estate planning vehicles.

This article seeks to elevate investment bonds from the sidelines to a core position within advisers' estate planning toolkits, demonstrating their value in preserving and growing wealth across generations.

Understanding Investment Bonds: Structure and Tax Treatment

Investment bonds, also known as insurance bonds, are life insurance products focused on investment where the client invests an initial lump sum premium, which is then invested in underlying assets managed by the product issuer. While technically insurance products, their primary purpose is investment growth. Investment bonds also offer regular savings plans to allow for smaller regular contributions throughout the year for ease of cashflow.

Key features include:

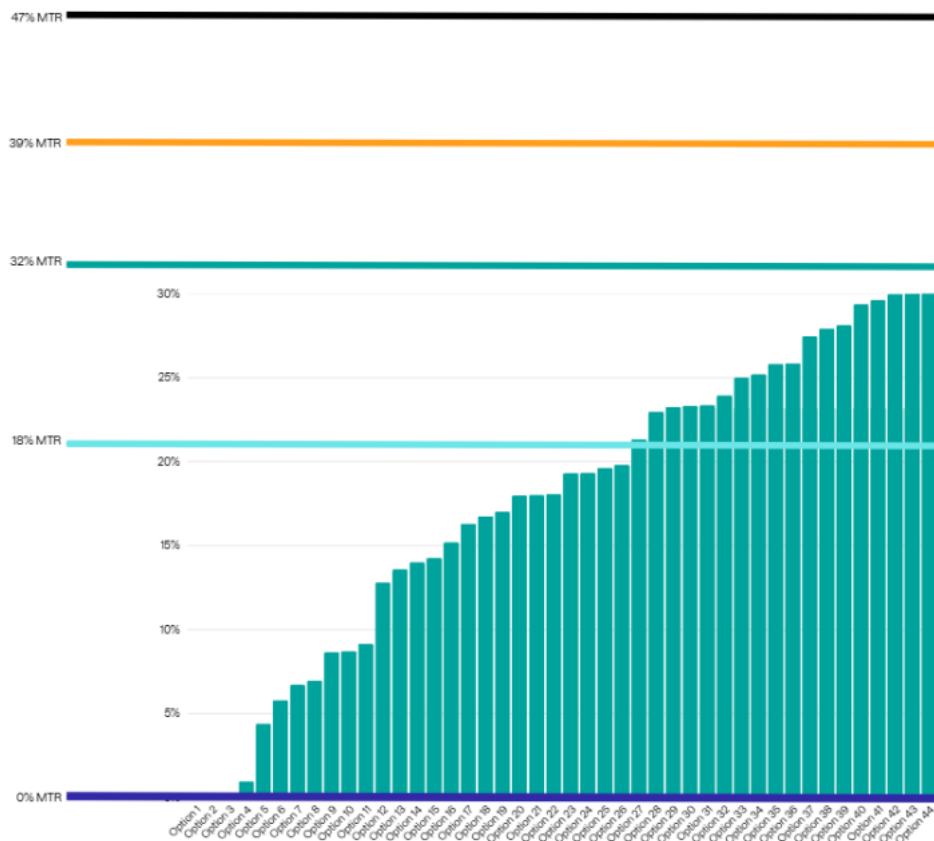
- **Initial Investment/Contribution:** Typically funded with a lump sum, though some products allow smaller regular contributions.
- **Tax Inside the Bond:** The investment earnings are taxed at the corporate tax rate (30%) within the bond, which removes the need for clients to declare earnings on their personal tax returns. The effective tax rate (the tax rate actually paid) for the Underlying managed funds is often lower than 30% as illustrated in the chart over the page (Chart 1).
- **Effective Tax Rate:** While the maximum tax rate applied is the corporate tax rate, the effective tax rate (the tax rate actually paid) is often much lower. (see image 1 below)
- **10-Year Rule:** If the bond is held for at least 10 years, withdrawals (partial or full) are generally tax-paid meaning that any withdrawal (lump sum or regular withdrawal plans) do not incur

any tax and do not need to be reported to the ATO. Withdrawals before 10 years can attract tax but often still benefit from a tax offset.

- Ownership and Beneficiary Control: Investment bonds can have nominated beneficiaries, allowing for a smooth transfer of funds on death without the need for probate.

This structure enables investment bonds to operate with a high degree of tax transparency and administrative simplicity compared to alternative investment vehicles.

Chart 1: Effective Tax Rates of Underlying Managed Funds on the KeyInvest Menu



Note: With the marginal tax rates indicated (as well as the company tax rate) there are investment options available for everyone regardless of their assessable income. These effective tax rates are the average effective tax rate for each investment option across 4 financial years.



Why Investment Bonds Are Well-Suited to Intergenerational Wealth Transfer

The process of passing wealth from one generation to the next is fraught with challenges including tax liabilities, family dynamics, administrative burdens, and changing legislation.

Investment bonds offer several advantages that make them ideal for this purpose:

1. **Tax Efficiency Within the Bond:** Since earnings are taxed at a maximum of 30% (but likely much lower) within the bond, individuals in higher tax brackets or those who do not want to deal with complex tax reporting can benefit. For clients on low marginal tax rates or pensioners, the effective tax rate can be significantly less, due to tax credits and the bond's internal tax mechanics. As illustrated in Chart 1 above there are options available for investors in each marginal tax rate.
2. **Simplicity of Reporting:** Because the bond pays tax internally, investors do not need to report earnings on their personal tax returns. This simplifies administration, especially for heirs who may inherit the bond.
3. **Beneficiary Nominations for Probate Avoidance:** Investment bonds allow for binding death benefit nominations, meaning the proceeds can be paid directly to nominated beneficiaries, bypassing the often-lengthy probate process.
4. **Flexibility of Access and Investment Choice:** While bonds have a 10-year rule for tax-paid withdrawals, clients can access funds earlier if needed, subject to tax. Additionally, investment options within bonds can include multi-asset or single sector investment options to help advisers recommend an investment mix tailored to client risk profiles and client's needs.
5. **No Capital Gains Tax on Withdrawals After 10 Years:** Unlike direct shareholdings or managed funds, the bond structure provides clients with the ability to withdraw funds without capital gains tax implications after the 10-year holding period.
6. **Potential to Complement Superannuation:** Investment bonds can bridge gaps where superannuation may be inaccessible (e.g., for clients below preservation age) or used to supplement estate plans where superannuation death benefits can be complex or contested.

Common Client Profiles Who Benefit from Investment Bond Strategies

Investment bonds are versatile but particularly suitable for certain client types:

- **HNW Individuals Seeking Tax-Efficient Growth:** Especially where the marginal tax rate on investment income would be above 30%, investment bonds can offer a capped and predictable tax rate.
- **Clients Looking to Simplify Reporting for Future Generations:** Parents or grandparents wanting to pass on investments without burdening heirs with complex tax obligations.
- **Clients with Moderate Assets Outside Superannuation:** Particularly those nearing or exceeding social security asset test limits who want to manage assessable assets strategically (Investment Bonds can be utilised for Gifting).
- **Younger Clients Building Wealth for Future Transfers:** Investment bonds can act as long-term wealth accumulation vehicles aligned with family succession plans, estate equalization, early inheritance gifting, young investor 'starter kits' to assist the next generation build a financial foundation.
- **Clients Concerned About Probate and Estate Delays:** Using beneficiary nominations, investment bonds provide smoother, faster asset transfer on death.

Practical Application: How Advisers Can Integrate Investment Bonds into Estate Plans

Step 1: Client Assessment

Evaluate client goals, tax situation, estate complexity, and family dynamics. Identify if tax efficiency, simplicity, or probate avoidance is a priority.

Step 2: Product Selection

Choose an investment bond product offering suitable investment options, competitive fees, and robust beneficiary nomination processes. KeyInvest's range offers tailored solutions designed to complement estate plans.

Step 3: Strategic Structuring

Incorporate investment bonds alongside superannuation, family trusts, or testamentary trusts to balance liquidity, tax, and control.

Step 4: Illustrate Financial Impact

Use scenario modelling to demonstrate tax savings, growth potential, and estate transfer benefits compared to direct investments or managed funds.

Step 5: Client Education and Compliance

Explain the 10-year rule, tax inside the bond, and beneficiary nomination implications clearly. Document advice in compliance with ASIC and FASEA.

Addressing Misconceptions About Investment Bonds

Despite their benefits, investment bonds suffer from persistent myths that limit their use:

- **“Investment bonds are always taxed at 30%”**
In reality, effective tax rates can be significantly lower due to imputation credits and the way earnings are taxed within the bond.
- **“Funds are inaccessible for 10 years”**
Withdrawals can be made at any time, though tax applies if before the 10-year mark. The 10-year rule mainly provides tax-paid withdrawal status, not liquidity restrictions. It is important to let clients know that there is an ‘In case of emergency, break glass’ feature allowing them near immediate access.
- **“Investment bonds are only for high-income earners”**
While high earners benefit from capped tax rates, investment bonds suit a broad client base seeking tax simplicity, estate planning ease, and flexible investment options.
- **“Investment bonds don’t provide estate planning benefits”**
Quite the contrary. Beneficiary nominations allow investment bonds to be passed outside of probate, reducing delays and legal costs.

Educating clients and advisers on these points helps unlock the full potential of investment bonds in wealth transfer.

Legislative and Regulatory Framework Governing Investment Bonds in Estate Planning

Understanding the regulatory environment is crucial for advisers recommending investment bonds as part of an intergenerational wealth transfer strategy.

Key legislative and regulatory considerations include:

- **Taxation Treatment (Division 6AA of the Income Tax Assessment Act 1936):**
Investment bonds are taxed within the bond at the company tax rate (currently at a maximum of 30%). This internal tax regime simplifies clients’ personal tax reporting obligations and affects how earnings and withdrawals are treated. Clients do not declare investment earnings on their personal tax returns unless there is a withdrawal before 10 years. This legislative feature underpins much of the tax efficiency investment bonds provide.
- **Social Security Implications:**
Funds invested in investment bonds may be treated as assessable assets under the Age Pension means test (unless used as a Gifting mechanism). Advisers should ensure clients understand the impact on social security benefits and structure investments accordingly.

Unlike funeral bonds (which have a capped exemption), investment bonds do not have a specific asset test exemption and must be considered in pension eligibility calculations.

- **Binding Death Benefit Nominations (Insurance Contracts Act 1984):**
Investment bonds often include provisions for binding nominations to beneficiaries, enabling the bond proceeds to bypass the estate and avoid probate delays. This is a significant advantage in estate planning but requires advisers to ensure nominations are valid, up to date, and compliant with product terms.
- **ASIC Regulatory Guide 175 (RG175) and FASEA Code of Ethics:**
Advisers must ensure suitability of investment bonds within client portfolios, provide clear disclosure on product features and tax treatment, and maintain thorough documentation. As estate planning tools, investment bonds must be recommended with a clear rationale aligned to client objectives.

Example

In-Depth Case Study: Equalising an Inheritance After Helping One Child with a House Deposit
Client Profile

Names: Peter and Helen

Ages: 61 and 59

- Net Assets: \$1.25 million, comprising:
 - Family home: \$1,300,000
 - Superannuation: \$1,200,000 combined
 - Cash/investments: \$200,000.
- Family: Two adult children – Lucas (24) and Sophie (17).
- Goal: Support Lucas with a house deposit while ensuring Sophie receives an equivalent benefit in the future, maintaining fairness in estate planning.

Scenario

Peter and Helen's son Lucas is preparing to purchase his first home. To assist, they gift him \$50,000 from their cash holdings to help with the deposit.

To maintain fairness and ensure Sophie receives a comparable benefit, Peter and Helen establish an investment bond in Sophie's name for \$50,000. Over time, this bond is expected to grow, equalising the early financial support given to Lucas.

Financial Modelling – Investment Bond for Sophie

- Initial investment: \$50,000 into Balanced Index option
- Assumed annual investment return within the bond: 6.25% p.a.
- Tax rate within the bond: Max 30% (effective tax rate 18%), reducing the effective net return to approximately 4.5% p.a.
- Investment horizon: 10+ years

Projected Outcome:

- After 10 years, the \$50,000 investment grows to approximately \$77,648 (before considering fees).
- Withdrawals after 10 years are tax-paid to Sophie.
- The bond proceeds pass directly to Sophie, bypassing probate and avoiding potential estate disputes.
- As Sophie is 17, but the time she reaches 27 there will be an amount there for her to use as a house deposit, or whatever she requires capital for.

Estate Planning Impact

- Lucas's benefit: Receives \$50,000 immediately to assist with a property purchase.
- Sophie's benefit: Receives an equivalent or higher sum in the future via the investment bond.
- Parents' peace of mind: Ensures a fair and transparent estate plan, reducing the risk of sibling disputes.

Comparative Advantage of Using the Bond

Without the bond:

- Funds retained in Peter and Helen's names would be taxable annually, reducing growth.
- Sophie would receive inheritance only through the estate, potentially delaying access and causing probate costs.
- Future capital gains tax could reduce Sophie's effective benefit.

With the investment bond:

- Tax capped at a maximum of 30% within the bond.
- Tax-free withdrawals after 10 years.
- Direct nomination to Sophie ensures timely transfer.
- Flexible access is possible if Peter and Helen's circumstances change (with tax consequences).

Key Takeaway

Investment bonds allow families to balance early assistance to one child with fair future benefits to another. In this case, Peter and Helen provide Lucas with immediate help for a house deposit, while ensuring Sophie receives a comparable inheritance in a tax-efficient, dispute-minimising way.

Addressing Practical Implementation Challenges and Adviser Best Practices

Despite their advantages, advisers must be aware of and manage practical challenges when integrating investment bonds into intergenerational wealth plans.

Client Education:

Investment bonds are often misunderstood. Advisers should invest time explaining:

- The 10-year rule and tax consequences of early withdrawals.
- Beneficiary nomination processes and their importance.
- How the internal tax mechanism works and how it affects clients' overall tax position.

Product Selection and Due Diligence:

Not all investment bonds are created equal. Advisers should:

- Choose products with transparent fees and robust investment options aligned to client risk profiles.
- Verify that beneficiary nomination provisions meet client estate planning goals.
- Understand product liquidity terms and any exit penalties.

Documentation and Compliance:

Clear records of advice and client consent are vital. This includes:

- Documenting client understanding of tax, social security, and estate implications.
- Regularly reviewing and updating beneficiary nominations to reflect client wishes.
- Ensuring advice aligns with ASIC and FASEA obligations regarding suitability and disclosure.

Monitoring and Review:

Legislation and client circumstances evolve. Advisers should:

- Conduct periodic reviews to assess whether investment bonds continue to meet client needs.
- Stay abreast of legislative changes impacting tax or social security treatment.
- Adjust strategies accordingly to maintain optimal intergenerational transfer outcomes.

Combining Investment Bonds with Other Estate Planning Tools

Investment bonds rarely stand alone in estate planning. Advisers should consider how bonds fit within broader strategies, such as:

- **Superannuation:**
While super offers tax advantages, super death benefits can be complex and sometimes contested. Investment bonds provide an accessible, flexible complement to superannuation assets.

- **Family and Testamentary Trusts:**

Investment bonds can be used alongside trusts to diversify tax and control outcomes across generations. Unlike trusts, investment bonds do not require an accountant to establish and manage. Further, there is no additional tax reporting required which adds more costs and effort.

- **Insurance Policies:**

Bonds can co-exist with life insurance to provide liquidity for estate costs and cover potential tax liabilities.

- **Wills and Powers of Attorney:**

Coordinating investment bond beneficiary nominations with estate documents helps prevent conflicts and ensures smooth wealth transfer. Investment bonds offer more immediate liquidity as they do not require probate to be paid to beneficiaries.

By integrating investment bonds thoughtfully, advisers can tailor estate strategies to client preferences and changing family dynamics.

Future Outlook: Investment Bonds in a Changing Wealth Landscape

The investment and regulatory landscapes continue to evolve. Investment bonds' unique features position them well to adapt and remain relevant in estate planning:

- **Increasing Longevity:**

As Australians live longer, preserving wealth and minimising tax leakage over decades becomes critical — areas where investment bonds excel.

- **Tax Reform Uncertainty:**

Potential changes to superannuation and capital gains tax regimes could increase demand for flexible, tax-effective vehicles like investment bonds.

- **Digitalisation and Reporting Simplification:**

Investment bonds' straightforward tax reporting aligns with growing client demand for simplified wealth management.

- **Changing Family Structures:**

More complex family situations (blended families, multiple generations) require adaptable estate planning tools; bonds' beneficiary flexibility supports this need.

Advisers who understand and leverage investment bonds will be well-positioned to serve clients amid these evolving trends.



Conclusion: Elevating Investment Bonds in Intergenerational Wealth Strategies

Investment bonds deserve a permanent, prominent place in modern estate planning toolkits. Far from being relics, they offer a sophisticated blend of tax efficiency, reporting simplicity, and flexibility that complements and enhances traditional wealth transfer mechanisms.

By educating clients, carefully selecting products, and integrating bonds into broader estate strategies, advisers can unlock significant benefits: preserving capital, minimising tax leakage, and ensuring smoother transitions of wealth across generations.

Investment bonds challenge advisers to rethink old assumptions and embrace a versatile, client-friendly solution that meets the complexities of today's intergenerational wealth transfer needs.

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- Leadership in Advice: Why Technical Excellence Isn't Enough for HNW Clients
- Tax Arbitrage and Investment Bonds: Understanding Effective Tax Rates and Accumulation Mechanics

Want to know more?

If this article has prompted questions, or if you would like to explore how investment bonds may be used in practice, our team is here to support you. A full contact list is over the page.

You are welcome to reach out to discuss:

- Technical or structural questions about investment bonds
- A one-on-one discussion with one of our Relationship Managers
- A tailored presentation or briefing for your practice
- Jointly delivered webinars or in-person seminars for you and your clients, designed to support education and engagement
- Ongoing adviser education sessions as part of your CPD program

We regularly work with advisers to provide clear, practical education sessions. Whether that's a short technical update, a client-facing session, or a deeper strategic discussion tailored to your advice model.

To start a conversation or arrange a session please reach out. We'd be pleased to support you, your team and your clients.

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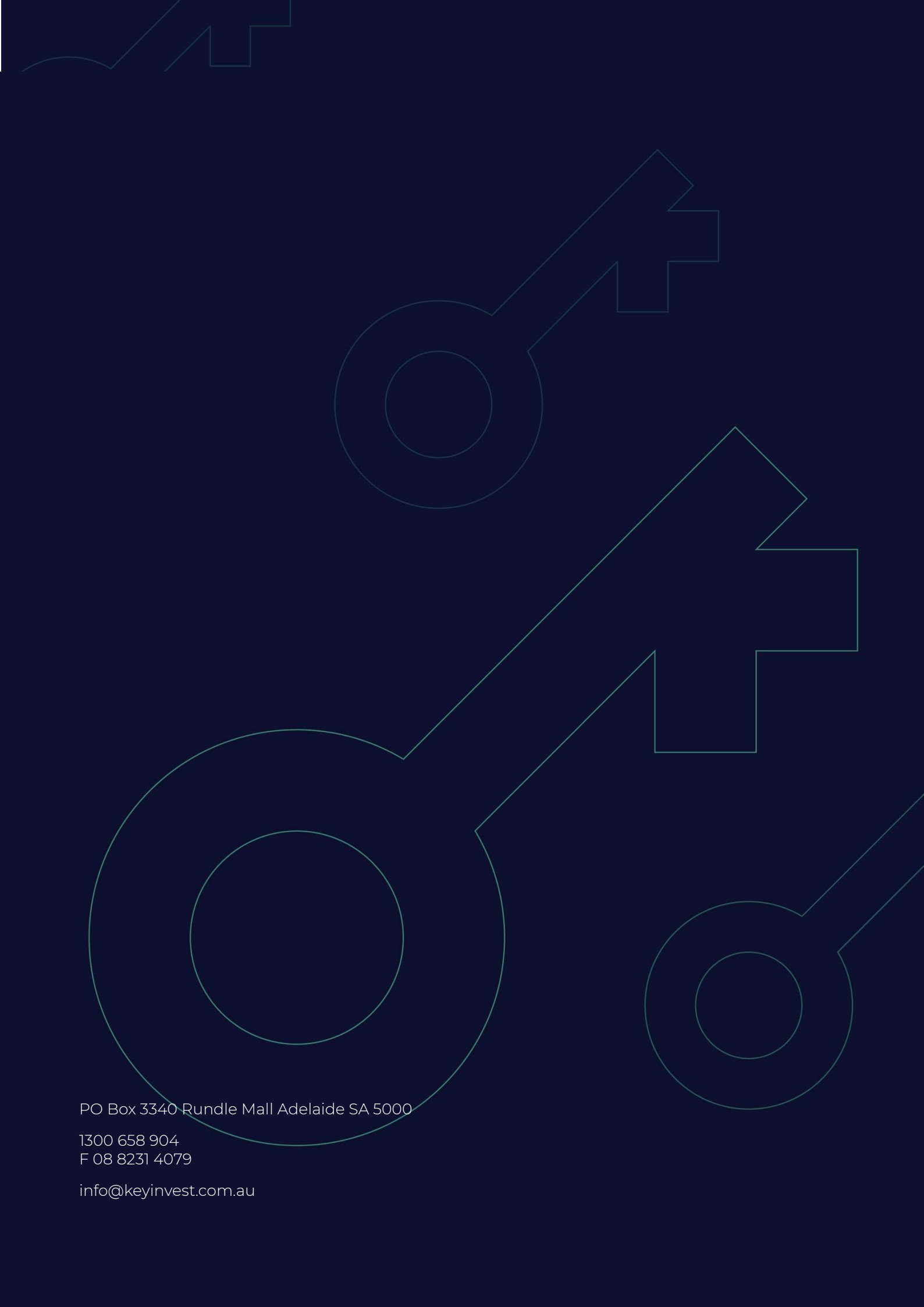
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