Friendly Societies of Australia

A strategy to help Australian families enhance education opportunities through greater self-reliance

FSA 2017-18 Pre-Budget Submission

Friendly Societies of Australia Incorporated
Level 11, 35 Clarence Street, Sydney NSW 2000
ARBN 067 828 513

Australian Unity

ASG
Supporting Children's Education

Australian®
FRIENDLY SOCIETY

Austock Life

Centuria

FORESTERS
Friendly Society

KEYINVEST
ESTABLISHED 1878

NOBLEOAK

OVER FIFTY GUARDIAN FRIENDLY SOCIETY LIMITED

sureplan
FRIENDLY SOCIETY LTD

Contents

Executive Summary

The Friendly Societies of Australia (FSA) welcomes the opportunity to provide the Government with this submission regarding our views of the priorities for the 2017-18 Budget.

The FSA represents friendly societies regulated by APRA, the majority of are member-owned mutual organisations (see appendix A). FSA members provide investment products, financial services, healthcare, retirement living, aged and home care services to some 800,000 members. Collectively, our sector manages around $7 billion in funds, and in 2015, paid out more than $675 million in benefits.

Friendly societies mainly offer simple financial products being investment bonds, funeral bonds and scholarship plans. These products are issued by friendly societies and other APRA-regulated entities under the Life Insurance Act 1995 (*Life Act*).

We believe there is a unique and strong alignment of values between our sector and the Government to promote greater self-reliance among Australian families to provide for education. Scholarship plans offered by friendly societies are a unique and innovative way for families to fund the education expenses of children across all levels of schooling. They are a type of investment bond with specific tax treatment under the *Income Tax Assessment Act 1997* (more information at Appendix B).

We believe there is a unique opportunity to move to a new policy framework that focuses on the support of education rather than the current emphasis on government funding of education. Our recommendations identify that education is a joint responsibility of both parents and the Government.

We recommend that the Government:

1. introduce a co-contribution scheme for friendly society scholarship plans for Australian families to assist and encourage savings for education expenses
2. immediately restore an appropriate tax-free threshold on taxable benefits paid to minors under friendly society scholarship plans, which are currently taxed at punitive rates as high as 66 per cent.

These recommendations directly address the need for a coherent long term strategy to increase Australian education savings pool due to the ongoing long term erosion of education affordability. Our proposed recommendations will lead to a more sustainable outcome in the long term.

To discuss any aspect of this submission please contact:

Mr Matt Walsh
FSA President
Head of Lifeplan, General Manager Life and Superannuation
Australian Unity
041 811 3978; mwalsh@australianunity.com.au

Background Information

Refer to Appendices A and B for more information about the sector and types of friendly society investment products.

Policy case for supporting education savings

RECOMMENDATION 1:
The Government should introduce a co-contribution scheme for friendly society scholarship plans for Australian families to assist and encourage savings for education expenses.

Australian families strongly value education. The Australian Scholarships Group (ASG), the largest provider of scholarship plans in Australia, recently published an education White Paper.[1] This paper found that 93 per cent of 1,000 Australian parents surveyed believe that it is important to save for education second only to saving to purchase a home. The cost of education has also significantly risen over the last decade. Using ABS data the growth in education expenses has outstripped CPI growth for at least the last decade.[2]

However, ASG found[3] that there is a large gap between families saving for education expenses and those that believe it is important. A high rate of survey participants (61 per cent to 75 per cent depending on level of education) found the concept of an education savings plan appealing but only 34 to 37 per cent actively saved for education expenses.

The Government should encourage education savings through incentive-based measures because it will assist families build a sustainable pool of education funds that can increase their financial adequacy and in turn:

- provide a family member with a higher level of education, such as a tertiary degree, that may otherwise have been unaffordable
- unlock new education pathways, such as TAFE study or vocational education and training
- increase a family member's level of education support, such as tutoring and coaching, or exam preparation
- relieve financial pressure by using savings to cover ancillary education costs such as travel, computers or textbooks, or smoothing the impact of education costs over time
- encourage families to diligently plan and budget for the education costs of their children.

These are significant benefits for families however, they also deliver major benefits to the nation. A large pool of national education savings could potentially:

- boost Australia's long-term education capacity
- increase workplace productivity and participation rates
- up-skill Australia's workforce
- expand employment opportunities and subsequent earnings capacity.

Despite active marketing of scholarship plans by the friendly society industry, this form of savings remains low. By illustration, in 2010-11, Australians personally spent around $36 billion on education[4] but only a fraction of that ($270 million[5] or 0.8 per cent) was met through structured education savings plans.

The dual objectives of a co-contribution scheme are to focus public attention on the benefits of education savings and provide an incentive that boosts this form of savings.

We believe the proposed scheme should be available to all households that make contributions to a scholarship plan[6] issued by a friendly society and would adopt the basic characteristics of a contribution amount, a cap and eligibility rules.

---

[1] ASG, *Repositioning education as a major life event 2016 White Paper*
[2] Calculated by using ABS Catalogue 6401
[3] ASG, *Repositioning education as a major life event 2016 White Paper* pg. 6-8
[4] ABS
[5] Total earnings paid to scholarship plan beneficiaries, 2010
[6] As defined under the Income Tax Assessment Act 1997 subsection 995-1(1)

Under existing tax law, scholarship plans can only be established by a friendly society regulated under the Life Act.

Increasing education participation rates

A co-contribution scheme could, we believe, create a much larger pool of education savings in a relatively short period of time. This will help address lower education participation rates, particularly among low and middle income households, and widen the range of education pathways available to young adults when their scholarship plans mature. Several international studies support the positive effects of financial resources for improved education participation.[7][8][9]

A scholarship plan owner, usually a parent, grandparent or another sponsor, could participate in the scheme on a child-by-child basis over a fixed, five year period that commences within the first two years after the birth of a child, with government matching, dollar-for-dollar annual contributions up to a maximum of $500 per year.

Target post-secondary education

The scheme should specifically target post-secondary education, be it tertiary study, TAFE or other forms of skills and vocational training. This can be achieved, in part, by preserving the co-contribution made by government, both the capital and income component, until the student beneficiary reaches the minimum school leaving age of 17 years old.

By increasing the uptake of scholarship plans, more Australians will be motivated and encouraged, and have the financial means to achieve further educational outcomes.

Primary and secondary education is accessed through the public education system, and therefore is less of a "barrier to entry" or needing more encouragement and support, unlike post-secondary education options. The FSA believes that the benefits of such a scheme are likely to be more pronounced for lower socio-economic groups, given that their means to pursue higher education are expected to be more limited. The focus on post-secondary education will also assist a long term–planning horizon for improving national educational outcomes.

Scheme integrity

We believe there should be no restrictions on withdrawing personal contributions made by the plan owner at an earlier time. Scholarship plans are designed to fund education expenses across all levels of schooling and this flexibility must be maintained.

However, creating a 'lock-in' period of a proportion of these savings, over a child's entire schooling life, will allow sufficient time for the amount of the co-contribution to generate a sufficient amount of earnings.

The integrity of the scheme would be maintained via the existing Australian Taxation Office (ATO) defined 'sole purpose test' for friendly society scholarship plans, which removes the existing concessional tax treatment on earnings if they are not used for legitimate education expenditure.[10]

There are other considerations that would need to be discussed with industry as part of a consultation process, such as entry and exit rules, particularly around any unused contribution amounts, timing and eligibility criteria.

---

[7] "Determinants of Undergraduate Student Drop Out Rates in a University Business Studies Department", Roger Bennett, Journal of Further and Higher Education, Volume 27, Issue 2, 2003
[8] "Come and stay a while: does financial aid effect retention conditioned on enrollment at a large public university?", Larry D Singell Jr., Economics of Education Review, Volume 23, Issue 5, October 2004, Pages 459–471
[9] "Simulating the Longitudinal Effects of Changes in Financial Aid on Student Departure from College", Stephen L. DesJardins, Dennis A. Ahlburg and Brian P. McCall, The Journal of Human Resources, Vol. 37, No. 3 (Summer, 2002), pp. 653-679
[10] Under tax law, if the earnings under these plans are not used for legitimate education expenses, then the 30 per cent tax paid at a fund level applies to these earnings and is assessed in the hands of the parent investor, not the child. Where the investor is on a higher tax bracket than 30 per cent, further tax is payable.

The FSA reiterates that the existing ATO regime, specifically established for scholarship plans in 2003, addresses tax integrity matters and facilitates a relatively easy design and implementation phase of the proposed scheme.

International experience

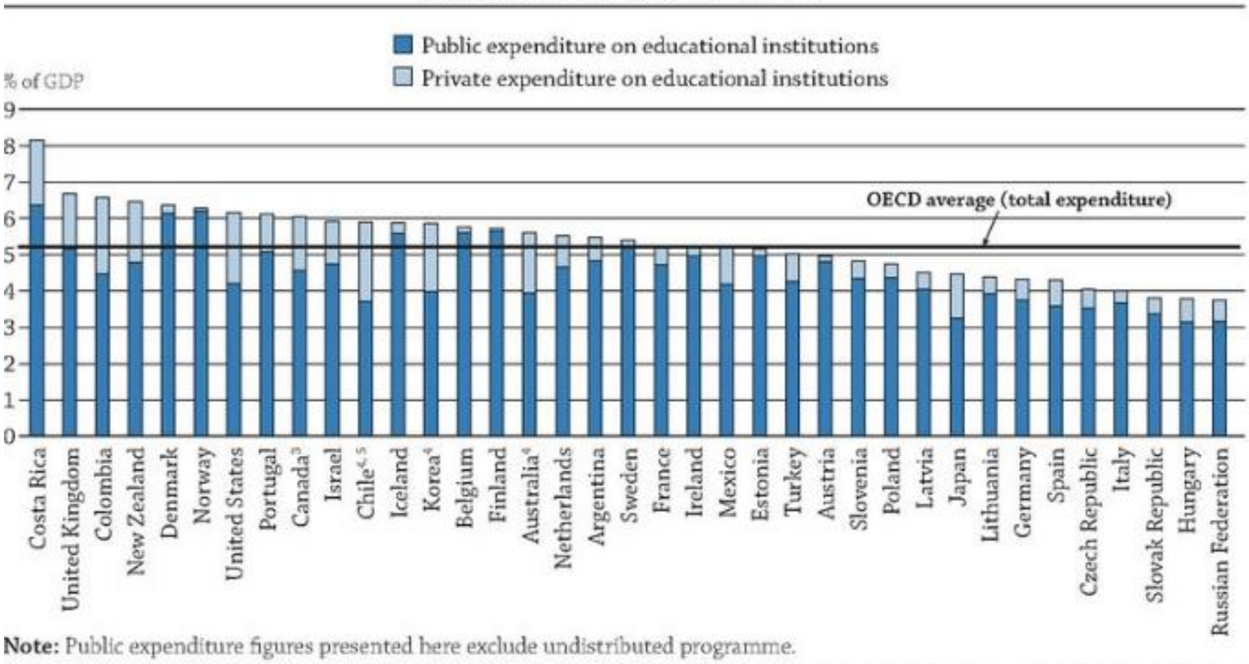
According to the OECD: "A well-educated and well-trained population is essential for the social and economic well-being of countries and individuals. Education plays a key role in providing individuals with the knowledge, skill and competencies needed to participate effectively in society and in the economy. Education also contributes to an expansion of scientific and cultural knowledge. The level of educational attainment of the population is a commonly used proxy for the stock of "human capital", that is, the skills available in the population and labour force."[11] OECD research highlights that education expenditure in Australia, as a percentage of GDP, while exceeding the OECD member country average, still trails a number of countries.[12]

The FSA believes that a greater private pool of savings can help improve our international competitiveness while mitigating the need for this to be funded entirely by government revenue. Indeed, the OECD has stated that "establishing innovative financing and student support policies that mobilise additional public and private funding in ways that better reflect the social and private benefits of tertiary education will certainly be part of the answer."[13]

International comparison of expenditure on educational institutions

Figure B2.1. Public and private expenditure on educational institutions, as a percentage of GDP (2013)

From public[1] and private[2] sources



Note: Public expenditure figures presented here exclude undistributed programme.

1. Including public subsidies to households attributable to educational institutions, and direct expenditure on educational institutions from international sources.
2. Net of public subsidies attributable for educational institutions.
3. Year of reference 2012.
4. Public does not include international sources.
5. Year of reference 2014.

Countries are ranked in descending order of expenditure from both public and private sources on educational institutions.

Source: OECD. Table B2.3. See Annex 3 for notes (www.oecd.org/education/education-at-a-glance-19991487.htm).

StatLink http://dx.doi.org/10.1787/888933397719

---

[11] Education at a Glance 2007 – Organisation for Economic Co-operation and Development (OECD) Indicators
[12] Education at a Glance 2016 – OECD Indicators
[13] Education at a Glance 2007 – OECD Indicators

The FSA believes that education participation rates are a function of access and opportunity, which is driven by individual affordability, means and motivation that comes from having committed a personal financial outlay to support their goals. We contend that a national program of education savings could mitigate, or even overcome affordability problems, and make a wide range of education pathways available to more people, regardless of their socio-economic backgrounds, beyond what government support can currently sustain.

Success of other government co-contribution schemes

Government co-contribution schemes are driven by the principles we have outlined above, and have been used as a "stimulus" in a number of areas of national concern, including health, retirement and housing.

The success of the superannuation co-contribution scheme indicates that Australians will respond to a similar scheme for education. Over the three years from 2008-2011, 1.35 million Australians on low to middle incomes utilised the super co-contribution scheme, a significant reaction given the long-term nature of retirement savings.

Education savings are medium-term, discretionary savings vehicles. This means that people using these vehicles realise the benefits of their investment earlier than superannuation, have active control over their savings and therefore have a greater level of personal involvement.

The FSA believes this will have a significant influence on the success of an education co-contribution scheme, perhaps even greater than that seen with superannuation, in relative terms.

Correcting the unintended consequences of tax reforms

RECOMMENDATION 2 – the FSA recommends:

The Government immediately restore an appropriate tax-free threshold on taxable benefits paid to minors under friendly society scholarship plans which are currently taxed at punitive rates as high as 66 per cent.

The lack of any meaningful tax-free threshold and the high rate of tax on income earned by minors from scholarship plans is an unintended consequence caused the removal of the low income tax offset (LITO) from non-work income earned by minors on 1 July 2011.

The removal of the LITO has seen the tax-free threshold for a child receiving a payment from a scholarship plan reduced from $3,333 to $416. Appendix C provides a diagram that sets out how this takes effect.

Unintended consequences of government tax reform

As a result of the LITO changes in 2011, the tax rate applied to earnings from scholarship plans has increased from zero to 66 per cent for earnings between $416 and $1,307, and from zero to 45 per cent on all earnings above that. At the time of the change, nearly 60,000 Australian children under the age of 18 years of age had in place a family sponsored scholarship plan accumulating education savings on their behalf.

These plans were established by families on the understanding that the government's concessional tax treatment would remain, only to later find that the final earnings payment would be much lower should they decide to withdraw.

Monitoring undertaken by industry between 1 July 2011 and 30 June 2012 indicated to a concerning spike in the closure of plans, along with substantially slower product take up. One fund with around 6,500 members saw 600 investors withdraw completely in the first 12 months after the tax changes, and experienced a drop of 33 per cent in new members over the same period, well outside normal behaviour patterns.

The dramatic reduction of the LITO will continue to have a disproportional negative impact on low income Australian households. A 2008 study undertaken by ASG found that:

- only 2.3 per cent of new members had a household income of over $100,000; and
- 68.7 per cent of new members had a household income between $52,500 and $78,800.

Generally, earnings cannot be drawn down for years after a plan is established with an initial investment. Where early draw-downs may be possible, the growth earned is generally insufficient until several years have passed. For this reason, and because scholarship plans can only be used to meet education costs, they cannot be used as income splitting vehicles to minimise tax liabilities.

As was noted previously, while ASG is the largest provider of scholarship plans in Australia, these plans are also offered by Australian Unity. Centuria Life commenced offering these plans three months prior to the changes but has since closed this product line due to LITO reforms.

Appendix D provides further information on distribution and age pattern of these products since the LITO reduction.

Policy intent of low income tax offset reforms

While the original policy intent was sound in its aim to prevent high income earners from accessing the tax offset via the transfer of income to a child, these reforms have triggered a major jump in a minor's tax rate, on any income[14] they withdraw from a scholarship plan.

[14] Where assessable in the hands of a student who is a minor (under Division 6AA rules) and not in the hands of a sponsoring adult - *Tax Laws Amendments (2011 Measures No 4) Bill 2011*, Explanatory Memorandum, ch2.

The drastic reduction in the LITO on income derived from scholarship plans does not align with the policy objective of the original proposal. At the time the changes were approved by Parliament, the explanatory memorandum to the Bill[15] set out the intent of the reform, which the FSA fully supports:

> *2.5 The aim of these rules is to discourage income splitting within families by directing income from adults to children to avoid higher marginal tax rates.*
>
> *2.6 In recent years the low income tax offset has increased significantly as a means of providing targeted tax relief to low-income earners. The low income tax offset has been available to all taxpayers with incomes below its cut-out threshold, including minors. An increasing amount of distributions from discretionary trusts have subsequently taken advantage of this concession to direct an increasing amount of income from adults to minors in order to minimise tax. There is a significant spike in distributions from discretionary trusts at around the point where the effective tax-free threshold for minors has applied in each recent tax year, and that spike has moved broadly in accordance with increases to the effective tax-free threshold for minors.*
>
> *2.7 Removing the eligibility of minors to use the low income tax offset to reduce tax payable on their unearned income will discourage families from splitting income with their children — protecting the integrity and improving the fairness of the income tax system.*

It is simply not possible for a parent to use an education savings plan to reduce their higher marginal tax rates and thereby reduce their tax liabilities, given they can only use the income from a plan solely for education purposes in order to retain the tax benefit. Indeed, the vehicles targeted under the government's policy were clearly discretionary trusts.

Previous tax arrangements

Prior to 2003, growth within a scholarship plan fund was untaxed, allowing a larger pool of benefits to be available to fund a student's education expenses.

This fund-level tax exemption was removed on new scholarship plans from 1 January 2003. Friendly societies then became subject to an effective tax rate of 30 per cent. To prevent an unfair double taxation regime from applying, special fund deduction rules were introduced for scholarship plans in recognition of the valuable role they play in encouraging education savings. This had the effect of restoring the untaxed distribution value, although the timing difference between annual fund tax and back-end tax deduction recovery had the effect of reducing the value of education benefits paid.

Apart from the diminished value of education benefits paid on 'post 31 December 2002' scholarship plans, the disclosed explanation of how tax worked on these products diminished their appeal to some extent.

Regardless, the 2003 changes allowed tax to apply in line with the economic substance of the arrangement and ensured the special purpose nature of these products was recognised whilst protecting the integrity of the tax system through a sole purpose test.

The papers below set out the government's rationale for tax concessions for scholarship plans, a rationale which we believe should continue to be recognised through the restoration of the previous LITO:

- *Taxation Laws Amendment Bill (No. 6) 2002 Second Reading Speech* dated 19 September 2002 – this sets out the intention to provide concessional tax rules for special purpose friendly society products, including scholarship plans
- *Explanatory Memorandum to TLAB6-2002* – sets out much of the rationale, particularly paragraphs 3.1, 3.5, 3.7, 3.14, to 3.18 and 3.29 to 3.34

[15] http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4586_ems_6886c832-17fb-44ee-a184-ec95e5843882/upload_pdf/355849.pdf;fileType=application%2Fpdf

- *ATO Fact Sheet for Scholarship Plans* – specially developed in 2003 to recognise and emphasis the special purpose nature of these plans and the sole purpose test.

The removal of the LITO is a very unfortunate outcome for thousands of Australian families. Scholarship plans are unique given they are the only dedicated education savings vehicle in the market today, and by law, can only be offered by a friendly society. Their tax integrity is upheld through the ATO's sole purpose test that removes any taxation concessions if earnings are not used for their intended education purposes.

The FSA contends that the government should announce a new tax-free threshold for these vehicles as a priority, set at $3,333 (at least) and indexed annually in line with the CPI for education.

We believe the cost to the budget revenue from this change would be negligible. The flow-on adverse impact on scholarship plan earnings of the LITO reforms was an unintended consequence of reforms to other areas of the taxation framework. The FSA believes that it is unlikely that the small revenue gain from an increased tax rate applicable to these plans was considered by the government at the time the changes were implemented.

The FSA believes there are no further revenue implications under this proposal.

Appendix A – The friendly society sector

History and purpose
First established by community groups in the 1830s, friendly societies have evolved into member-focused providers of financial services, healthcare, retirement living, aged and home care services, transport, pharmacies and other fraternal services that help Australians become financially independent and better prepared for life-events through the provision of savings, investment and insurance products.

The sole focus of friendly societies is to assist and promote Australians to:

- fund future common and foreseeable life-events, such as home deposits and ownership, raising and educating children, sinking funds to pay debt, health and aged-care, job loss provisions, private child care funding, and support for aged parents or family members with disabilities;
- better prepare for difficult financial times that inevitably arise at some point in their lives; and
- improve and sustain financial and social standards via self-reliance and a savings culture that does not resort to government social welfare dependency in the first instance.

To promote this ethos and personal savings culture, friendly societies commit to:

- providing low-fee savings products that represent good value, are easily understood, meet an express customer need and are inclusive to all levels of society;
- maintaining exceptionally high standards for members, centred around honesty, integrity and ease of access;
- furthering the financial literacy of Australians, and educating them about the benefits of prudent medium-term savings and the need for financial security derived from self-generated financial provisions; and
- upholding core principles of mutual self-help, support and co-operation.

Given the current structural challenges faced by the federal budget, and growing pressure on Australian family budgets, we believe friendly societies have the proven business model that is entirely consistent with the Government's objective to promote greater self-reliance among Australians.

Size and nature of the FSA's membership
FSA members serve the savings, investment and insurance needs of more than 800,000 Australians.[16] Collectively, the sector manages around $7 billion in funds, and in 2015 paid out more than $675 million in benefits.

The APRA-regulated sector is diverse in nature. Australia's largest friendly society is Australian Unity with funds under management of almost $2 billion and 169,000 customers. The smallest is NobleOak Life Limited with about $25 million funds under management, serving approximately 40,000 customers.

A complete of the FSA membership can be found at this link - http://www.customerownedbanking.asn.au/members/friendly-societies/friendly-societies-of-australia

Friendly society licensing and regulation
Friendly societies which offer investment products are licensed financial institutions that are prudentially regulated by APRA under the Life Act. Their products are also subject to regulation by the Australian Securities and Investment Commission (ASIC) with respect to disclosure and financial service licensing obligations under the *Corporations Act 2001.*

All APRA-regulated friendly societies are registered as life insurance companies under the Life Act, which authorises them to conduct various classes of life insurance business structured within their corporate entity using the friendly society 'benefit fund' structure.

[16] Customer Owned Banking Association estimate

Mutuals across the Australian economy
In its 2012 research paper, *Who knew Australians were so co-operative?*, The Australia Institute noted that “eight in every ten Australians are a member of a co-operatively owned, or mutually owned enterprise such as a road side assistance organisation, a mutually owned bank or a consumer cooperative.”

The research paper estimated some 13.5 million Australians were members of more than 1,700 mutuals and cooperatives, and the top 100 of these institutions having turned-over $17 billion in 2011.

“Despite the widespread membership of co-ops, and the size and economic significance of the sector, community awareness of the sector runs far behind community reliance on the sector. Indeed, according to a survey conducted by The Australia Institute despite the fact that 79 per cent of people are members of a co-op only three in ten Australians could name a co-operative or mutually owned enterprise and only 16 per cent of Australians believe that they are a member of one.”

In celebration of Australian Unity’s[17] 175th anniversary, Alex McDermott was commissioned to explore the history of this institution in his chronicle *Of no personal influence… How people of common enterprise unexpectedly shaped Australia.*

In this work, McDermott also noted “that only 16 percent of people *realise* that they belong”, but offered the view that it was “clear evidence that mutuals gain members and customers not only through the appeal of their social values, but through the value of the products and services they create.”

[17] Ranked 6th largest Australian mutual enterprise by turnover with a gross turnover $1,146,136,000 (FY2012/13): 2014 National Mutual Economy Report.

Appendix B – Types of friendly society investment products

Investment bonds are multi-purpose savings vehicles that are used to prepare for a wide range of life-events, such as funding education costs, house deposits, and health and aged-care costs.

They also have a number of strategy-based applications, such as pre-emptive intergenerational wealth transfer and estate planning through the ability to nominate beneficiaries. On death, the balance of the bond is paid tax-free directly to the beneficiary rather than to the estate, avoiding potential disputes and claims from third parties.

Investment bonds are similar in form to a managed fund, except they are 'tax paid', in that earnings within the fund are taxed at the rate of 30 per cent, and non-distributing, with after-tax returns reinvested into the fund.

They can be capital guaranteed through investments in cash and other conservative investments, or unit linked where investors' funds are pooled together in order to provide individuals with access to investment opportunities that may not otherwise be available to them.

Investment bonds have features that shape their longer-term, savings-based nature, most notably a 10-year holding period, where accumulated capital and earnings are accessible tax-free after ten years. A 125 per cent contribution rule allows for ongoing contributions into the fund over the life of the bond.

Funeral bonds are also 'tax paid' investment bonds but without specified limits on contribution amounts, other than for means testing for pensions, and a reasonable purpose limitation, with the amount of the bond paid only on death of the bond holder.

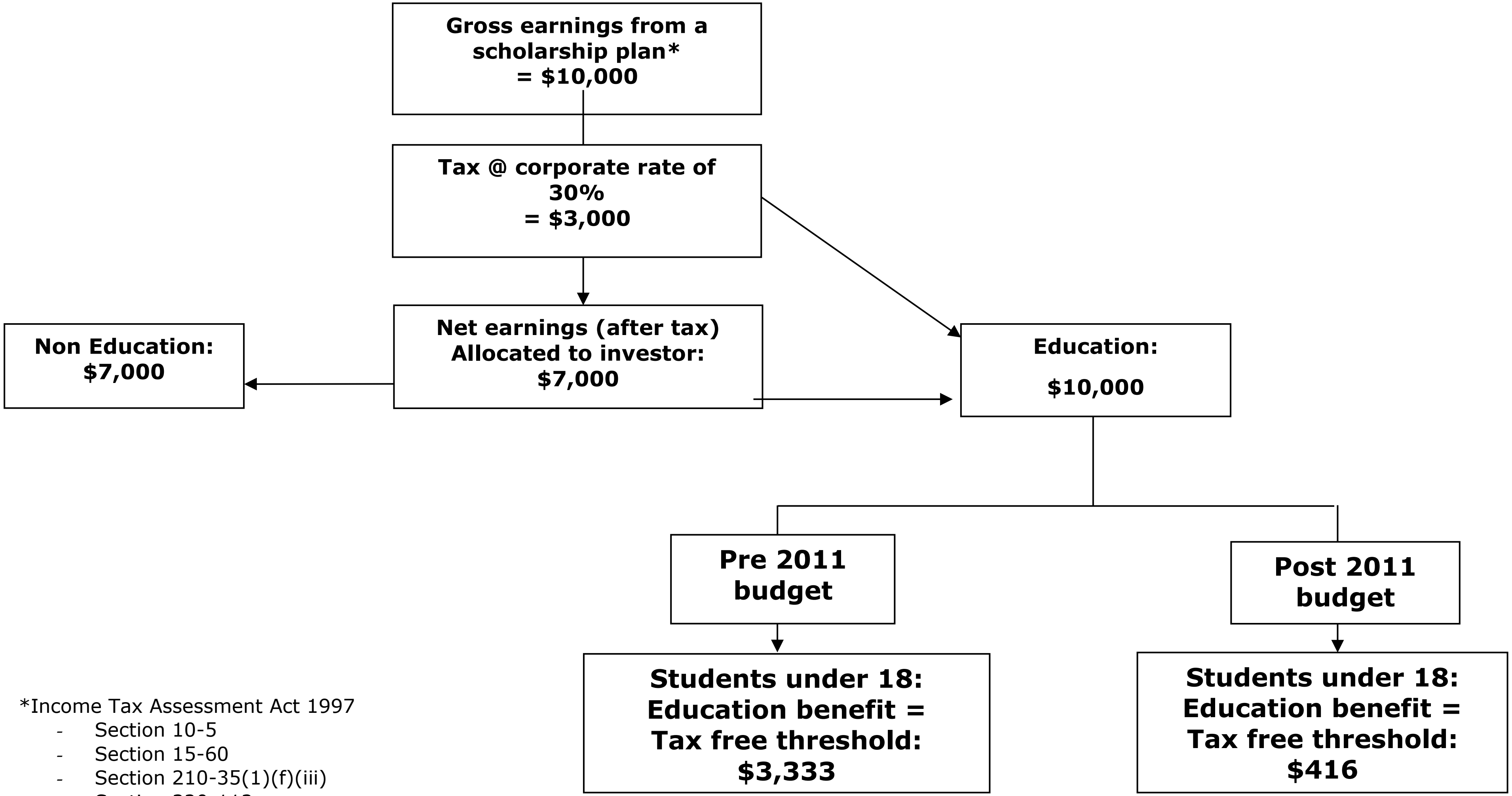
All funds are paid on behalf of the estate to a nominee, or directly to the estate, or to a funeral director via assignment. Tax is payable by the estate, if assessable, or by the funeral director on earnings, less a 'termination bonus' that equates to the tax paid by the fund.

Scholarship plans are a variant of an investment bond but with a specific tax treatment under the *Income Tax Assessment Act 1997*[18] (ITAA). They are specific purpose life-event savings vehicles used to fund the education expenses of children across all levels of schooling, from primary through to secondary, or adults pursuing tertiary or skills based qualifications, and carry all of the benefits of investment bonds.

Under tax law, scholarship plans can only be established by a friendly society regulated under the Life Act. As the fund is designed specifically for education, it fulfils the requirements of a 'scholarship plan' under the ITAA. This allows the fund to receive concessional tax treatment, in the form of a rebate on the 30 per cent tax paid at the fund level, which in turns optimises the child's scholarship benefit.

[18] Income Tax Assessment Act 1997 subsection 995-1(1)

Appendix C - Example scholarship plan, operation and tax changes



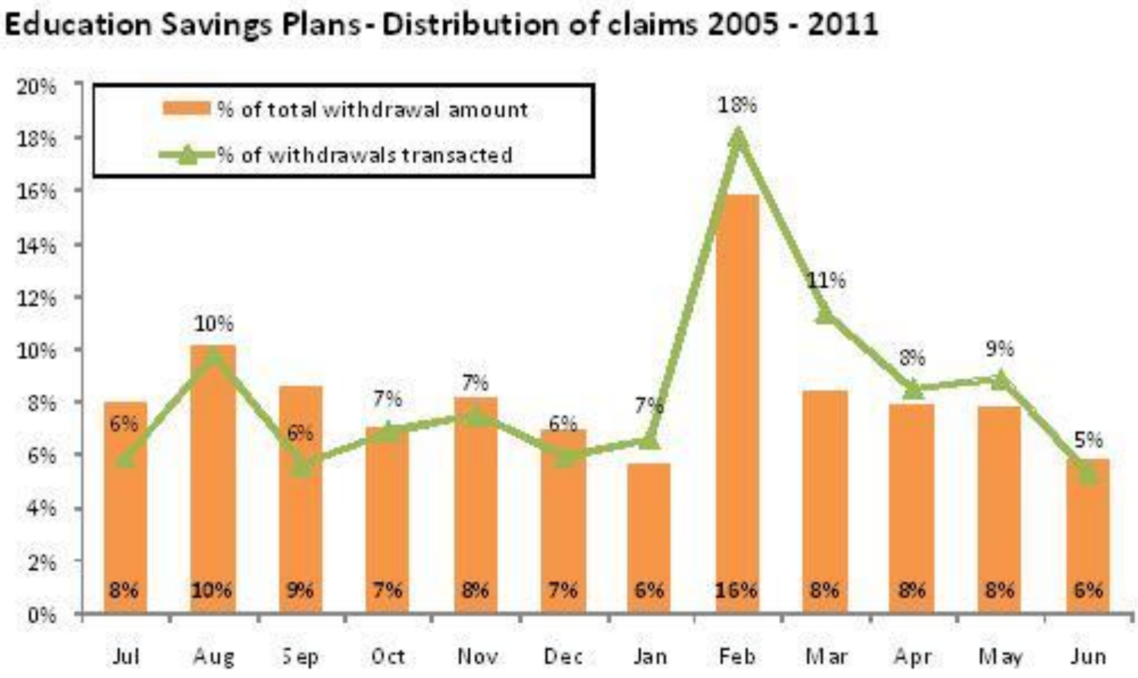
*Income Tax Assessment Act 1997

- Section 10-5
- Section 15-60
- Section 210-35(1)(f)(iii)
- Section 320-112
- Section 995 -1(1) definition of Scholarship plan.

Appendix D – Distribution and age patterns of scholarship plans

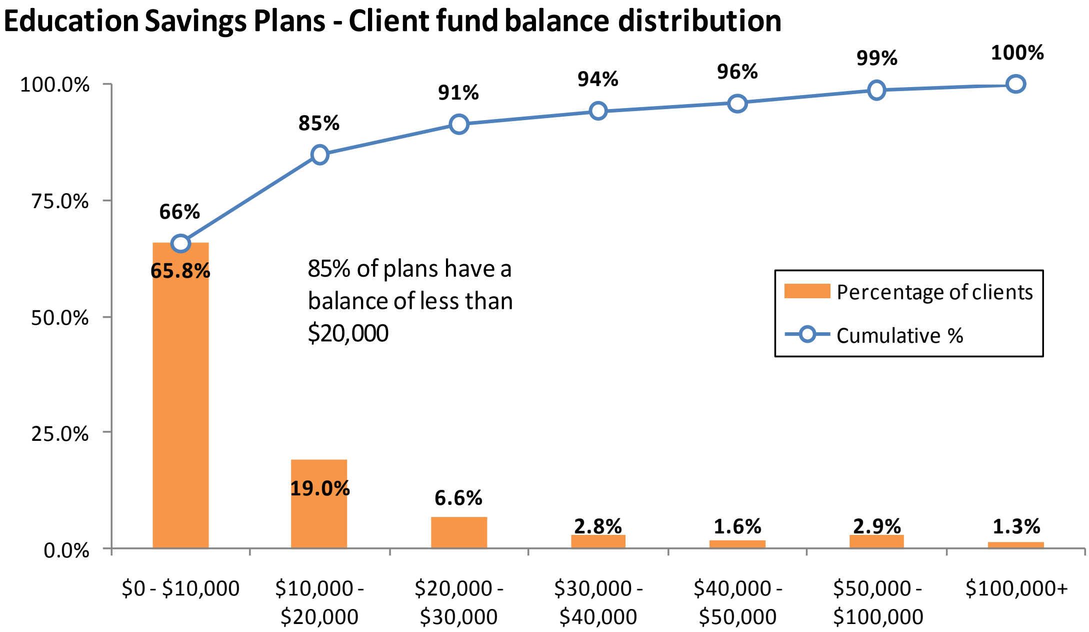
Following is data on plan distributions that demonstrates that there is no correlation between the timing nor the amount of plan distributions with changes to the low income tax offset.

Figure 1



- The above graph shows the pattern of qualified education withdrawals during each month of the year.
- There is a clear spike in qualified education withdrawals during 'back to school time' in February and to a lesser extent during August.

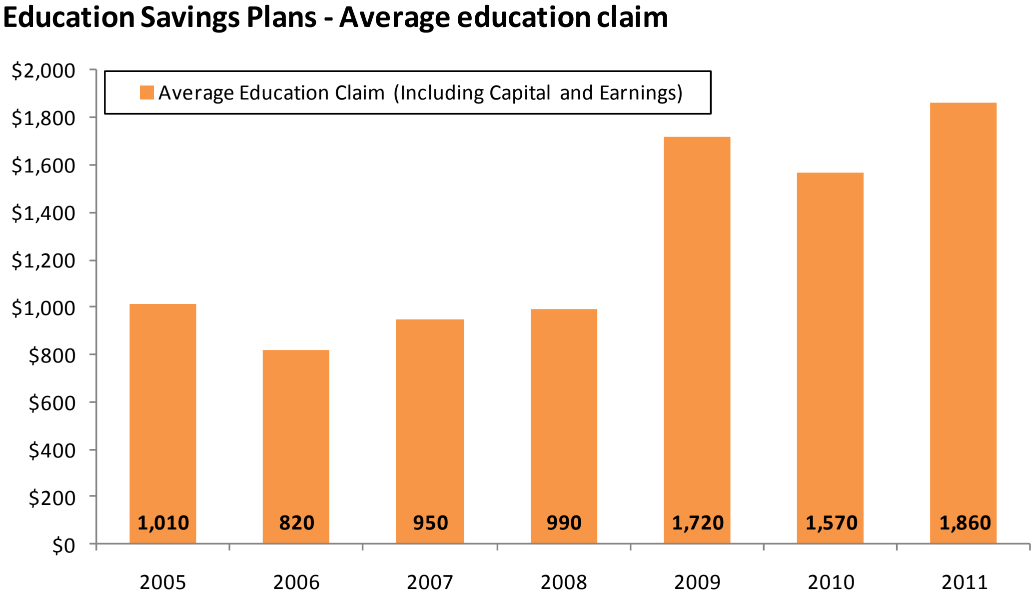
Figure 2



The above graph shows the distribution of Education Savings Plan fund balances.

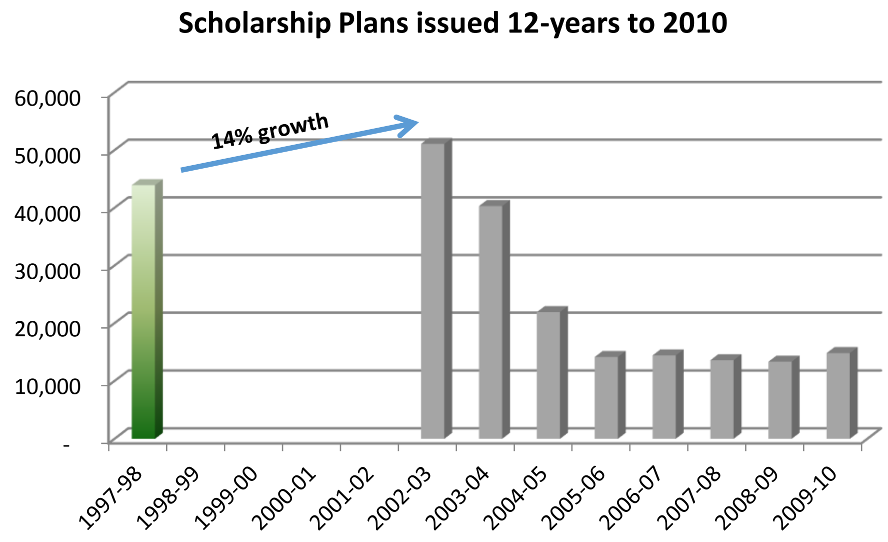
- 85 per cent of plans have a balance less or equal to $20,000.

Figure 3



- The above graph shows the average qualified education withdrawal per plan (inclusive of investor contributions and plan earnings) during each of the financial years from 2005 through to 2011.
- The sample includes education withdrawals for students under and over the age of 18, noting that 96 per cent of plans are held on behalf of minors (students under age 18).
- The graph clearly shows that qualified education withdrawals per plan (inclusive of investor contributions and plan earnings) have been well below the effective tax free threshold of a minor in each financial year.

Figure 4



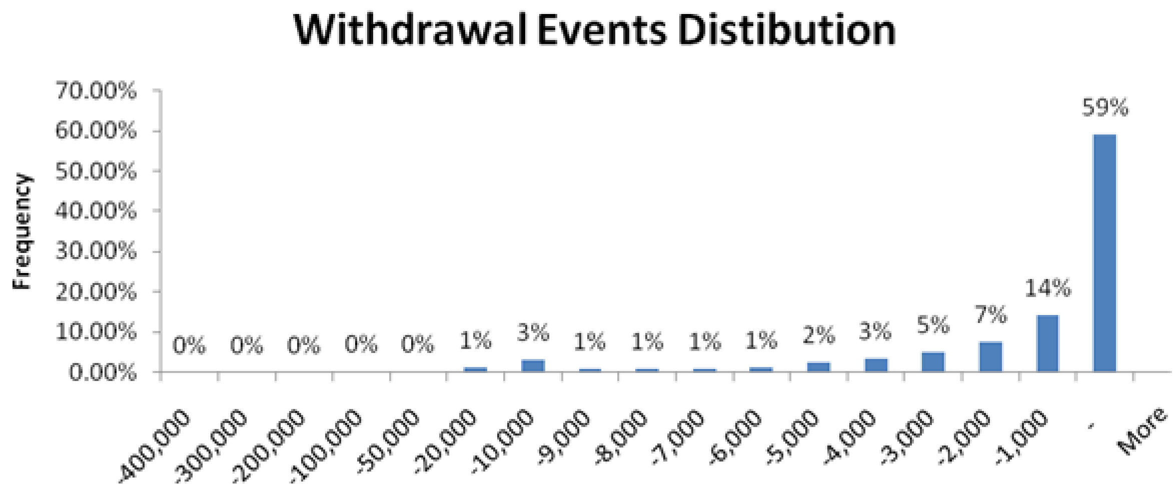
Notes/Source: Plans issued by Australian Scholrships Group

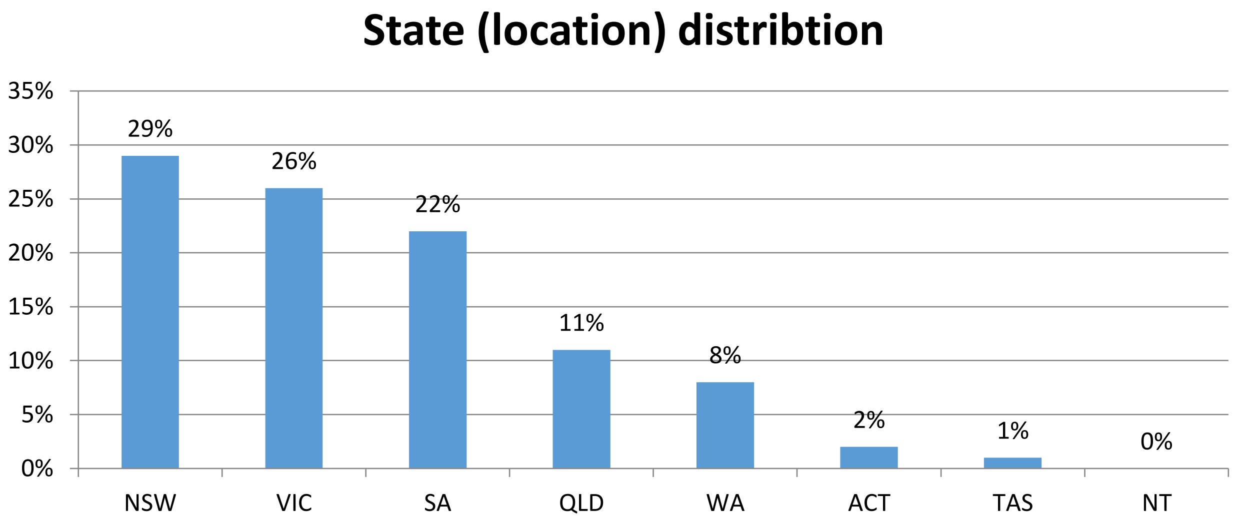
An analysis of the product take up of the largest provider of scholarship plans in Australia, Australian Scholarships Group, shows a 14 per cent increase in product take up in the five years prior to 2003 which was then followed by an average annual decrease of around 30 per cent per annum up until recently. The graph above illustrates this point.

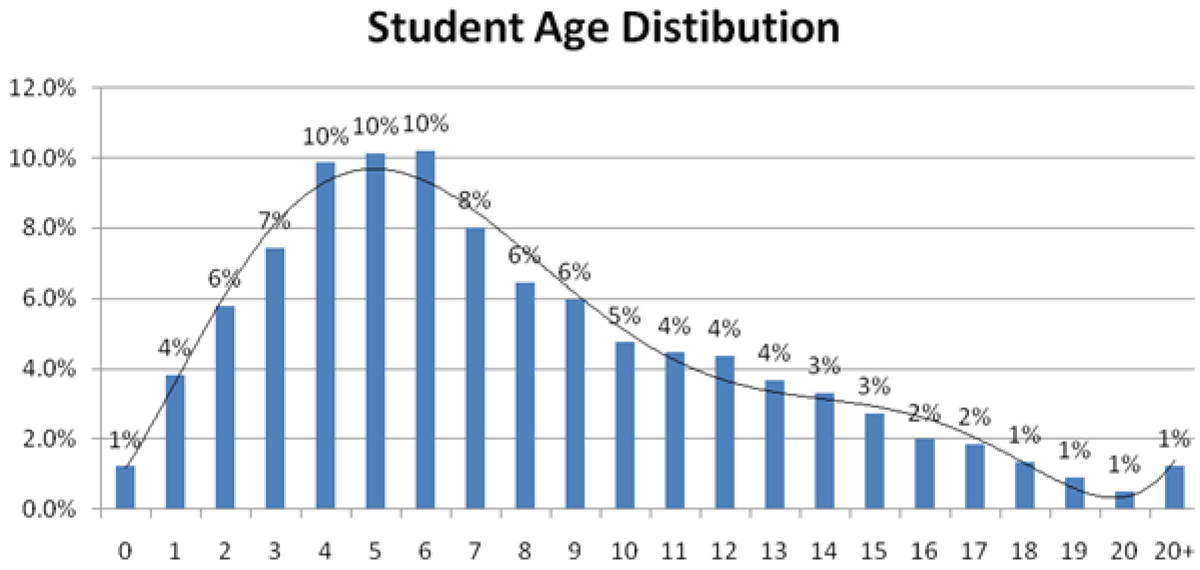
This was in part influenced by the increase in complexity caused by transferring the tax liability from the parent to the child, notwithstanding that tax concession being preserved.

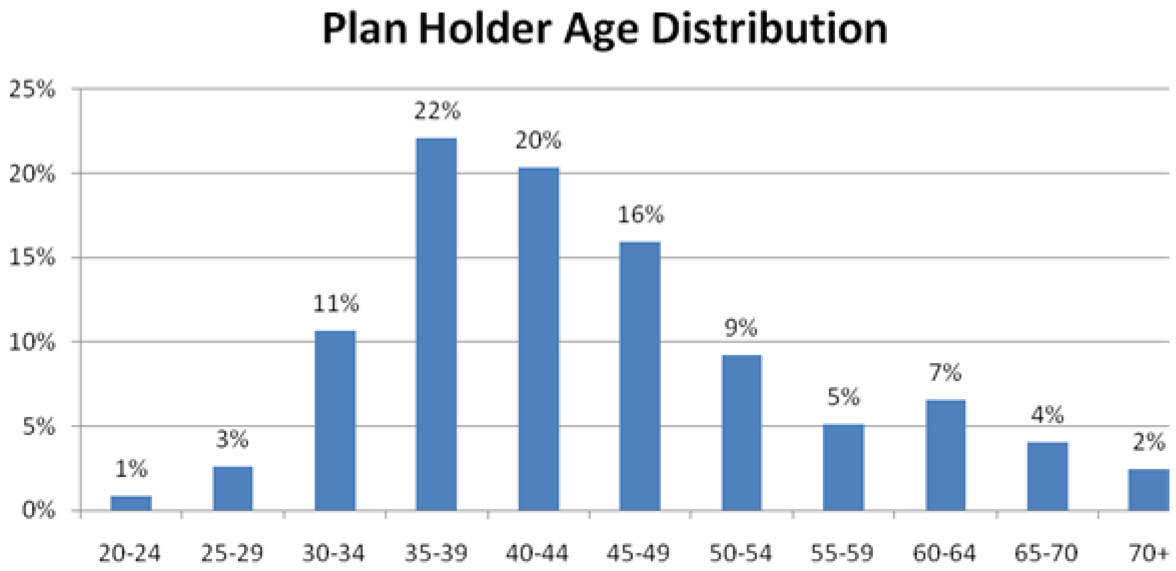
The key point to draw from this graph is that the industry is seeing rates of decline in product take up that is out of step with any notion that they are used for the purpose of minimising taxation. These rates of decline also highlight the critical need to encourage people to save for their future education using these products, rather than discouraging them, through the drastically reduced LITO.

Industry Data
Below is a series of graphs providing additional information on age and state distribution of scholarship plans.









Source: Australian Unity/Lifeplan