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Did you know?

According to research recently conducted by Rice Warner Actuaries, Australian superannuation is expected to grow to more than \$3.2 trillion over the next 15 years. Of this, approximately 40% of funds are expected to be held in post-retirement assets.

Source: Rice Warner Actuaries

Transition to retirement

Imagine this – it is early 2005 and you are 58 years old. You have decided to reduce your working hours to 3 days a week and enjoy a 4 day weekend, every week! The only difficulty you have is that you need 5 days income in order to maintain your lifestyle. But that is OK... as you have a reasonable amount put aside in superannuation, why not start to draw a small pension from your super account to cover the shortfall in income. Sounds like a very reasonable solution to the problem, doesn't it?

So you give your super fund a call and tell them what you want to do. Unfortunately they don't share your view. You see, your superannuation benefits are "preserved". That means they can't be accessed either as a pension (income stream) or as a lump sum, until you meet a "condition of release". They explain that because of the preservation rules you can't access your super benefits at age 58 unless you have retired and have no intention of resuming gainful employment. In fact, unless you retire permanently, you won't be able to access your super until you turn 65!

Can you imagine the disappointment of not being able to pursue your dream of a 4 day weekend?

The situation outlined above applied to all people with preserved superannuation benefits prior to 30th June 2005.

In an attempt to make superannuation more attractive and to encourage people to remain in the workforce longer, even if only on a part-time basis, the Government introduced changes to legislation that would allow people who have reached their "preservation age" to draw on their superannuation benefits provided the benefit was taken as an income stream or pension, and not as a lump sum. Preservation age is 55 for people born before 1st July 1960. For those born after 30th June 1960, this is progressively increasing to 60.

This change, often referred to as "transition to retirement", took effect from 1st July 2005.

If we go back to the example at the start of this article, the situation we have described is now remedied with the

"transition to retirement" changes. Where a person aged 58 was not able to access any part of their superannuation benefit because they were still working, they can now start to draw an income stream or pension to supplement their income from reduced working hours.

Transition to retirement is an opportunity available to any person who has preserved superannuation benefits, has reached preservation age (i.e. 55), and is willing to take their super in the form of an income stream or pension.

The interesting thing with transition to retirement is that there is no obligation to actually reduce your working hours in order to commence a superannuation pension. Many people continue to work full-time yet draw an income from their super.

There are three groups of people who use a transition to retirement strategy:

1. Those looking to supplement their income, perhaps as a result of a pay cut or reduced working hours,
2. Those requiring additional income to meet day-to-day living expenses, and
3. Those who simply want to introduce some very effective tax planning into their remuneration structure.

Let's look at some examples of transition to retirement in practice:

Lucy is 57 years of age and is currently employed full-time as a librarian at a local council library. She also enjoys writing short stories and wishes to pursue this on a more commercial basis. With this in mind, Lucy wants to reduce her working hours to 3 days a week. Her employer is willing to accommodate this arrangement. As she has savings set aside in superannuation, she would like to draw a small pension from her super to supplement her salary. In Lucy's case, transition to retirement is an ideal solution.



Lucy gets to spend more time on her writing, and still maintains the same level of income even though it is now being drawn from two sources – employment and superannuation. Of course the community benefit of this strategy is that Lucy's skills as a librarian are not lost as she has remained in the workforce.



Drawing a superannuation pension and, at the same time, contributing surplus income from other sources (e.g. salary) back into superannuation under a salary sacrifice arrangement is one of the alternative strategies that has emerged.

Because a superannuation pension is generally more concessionally taxed than other income, significant tax savings can be achieved by simultaneously drawing a superannuation income stream and re-contributing excess income from other sources to super. This strategy works for employees, the self-employed, and for those who are generating passive income from investments and trust distributions, on which they are paying tax.

One of the recent changes to superannuation that makes this strategy even more effective for most people aged 60 or older is that the income they draw from their superannuation is now tax-free.

Consider the following example –

Bart is 60 and works full-time. He plans to continue working until he turns 65 and will probably work beyond that.

Bart commences drawing a pension from his super. As he is 60, the income he receives from his pension will be tax free. He arranges with his employer to contribute his surplus income from employment back into superannuation. As a result, he significantly reduces the amount of tax he pays which, in turn, adds to his superannuation savings.

Even if Bart was aged between 55 and 60, he could still utilise this strategy and achieve tax savings but they will not generally be as generous until he turns 60.

Transition to retirement is a strategy that should at least be considered by anyone aged 55 or over, who has savings in super (or has funds that can be

contributed), and they receive income on which they pay tax.

However, as every person's circumstances are different, and the superannuation rules are complex, professional advice on the appropriateness of a transition to retirement strategy is critically important. Spend some time with your adviser and have them show you how you could benefit from "transition to retirement".

Source: Peter Kelly – Professional Investment Services – November 2007

Life Insurance held through Superannuation

Many people hold death and total and permanent disablement insurance through their superannuation fund. Whilst this can be a very effective strategy for managing cash flow – the super fund pays the premiums – there can be tax consequences should a claim arise.

Whilst death benefits paid to a dependant of the deceased member are tax-free, all or a part of a death benefit arising from insurance proceeds and paid to a non-dependant, may be taxed at a rate of up to 30%, plus Medicare Levy.

For taxation purposes, a dependant includes a spouse of the deceased, former spouse, child under the age of 18, someone with whom the deceased has an "interdependency relationship", or anyone else financially dependant on the deceased.

By definition, an adult child of a deceased member will be regarded as a non-dependant unless they are otherwise financially dependant of their deceased parent.

When considering holding insurance through superannuation, it is important to think of who the likely beneficiary of the insurance proceeds will be. If it is likely to be a non-dependant, there may be an argument to support holding the life insurance cover outside super.



Superannuation estate planning is a complex subject. The advice of a competent financial planner or risk adviser may be worth its weight in gold.

Source: Peter Kelly – Professional Investment Services – Dec 2007

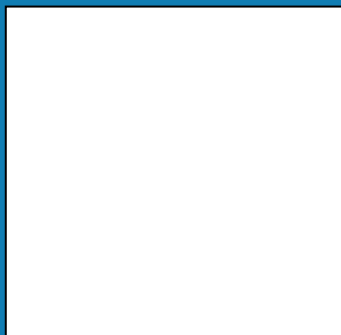
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