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# Retirement

## Retirement Planning

When approaching retirement, an important consideration is how to invest your savings, including superannuation, in the most appropriate manner so that you are able to replace your wage or salary with a regular income. This will help you meet ongoing living expenses throughout your retirement years and help you to achieve your lifestyle goals and objectives.

When it comes to choosing how to structure your investments in retirement it's important that your savings are invested in a tax effective way, while still maintaining flexibility to cover any unforeseen changes in your circumstances.

With regards to your retirement savings, you have the following options available:

- Invest outside of the superannuation environment (this may involve cashing out all or part of your superannuation benefits as a lump sum);
- Use all or part of your retirement savings to buy a regular income stream such as a pension or annuity or
- A combination of both of the above.

## Investing Outside of Superannuation

Depending on your requirements for income and access to capital, you may choose to invest outside of the superannuation environment. Generally this option provides the greatest flexibility for capital, as you are able to use your savings in any way you wish.

You could choose to purchase investments such as property, managed funds or shares, or you could use your funds to pay off your mortgage or to take a holiday.

As part of this strategy you may also choose to withdraw your funds from superannuation.

However, you need to be aware that you may be liable to pay lump sum tax on any amounts you withdraw.

Generating income from investments held outside the superannuation environment may not be the most tax effective option for you. This is particularly the case if you make a lump sum withdrawal from superannuation and thereby lose access to the 15% tax offset generally associated with income streams that are commenced with superannuation benefits.

Furthermore, you may lose the opportunity to reinvest your funds into the superannuation environment at a later date.

It is important to note that investing outside superannuation may impact on any current or future Centrelink benefits which you may be eligible for.

## Purchasing a Regular Income Stream

The Federal Government encourages retirees to provide their own income in retirement, rather than relying solely on the Age Pension. By providing incentives in the form of tax concessions and social security benefits, the Government helps to make investments that produce regular income streams more attractive to retirees. These types of investments are generally referred to as personal pensions and annuities, and fall into four main groups:

- Allocated pensions or annuities;
- Non-Commutable Allocated Pension (Transition to Retirement Pension);
- Fixed term pensions or annuities; &
- Complying lifetime pensions or annuities

Generally, these investments involve investing a lump sum of money, either from superannuation or non-superannuation investments. You will then receive a series of regular income payments for either a fixed period of time, for your lifetime, or until the account balance runs out. The actual term of the income stream will depend on the specific type of product purchased.

The main distinction between pensions and annuities is that pensions can only be purchased using superannuation money and are paid by superannuation funds while annuities can generally be purchased using superannuation or non-superannuation money and are paid by life insurance companies.

## Allocated Pensions

An allocated pension is an investment policy established to provide a flexible, regular income stream. Your money is invested in asset classes of your choice, which provide investment returns in the form of earnings and growth. Regular income payments are made until the account balance is exhausted.

You can choose the level and frequency of income to be received, which can be varied to suit changing requirements however, the income amount you select must be within set limits prescribed by the government according to your age and account balance. These levels are called the minimum and maximum amounts and are calculated upon entry and at 1 July each year (review date). Frequency of income payments is flexible provided at least one income payment is made in each financial year (unless you commence an allocated pension on or after 1 June). You can access capital and a withdrawal of capital (called a commutation) can be made at any time.

## What are the Benefits and Disadvantages?

Allocated pensions are recommended for people seeking a regular income stream from their superannuation entitlements and are prepared to accept the investment and longevity risk associated with the allocated annuity structure.

The advantages are:

- Lump sum tax can be eliminated or deferred as no tax is payable on amounts rolled over to purchase the allocated pension (unless these amounts include a post-June 1983 untaxed element, which attracts a 15% contributions tax).
- your income from the allocated pension can be varied each year within the minimum and maximum limits to reflect your requirements
- you have access to your capital at any time (depending on fund restrictions).
- your income payment may be tax-free and a tax rebate up to 15% may apply (until July 2007).

The value of your account balance can fluctuate depending on the investment returns of the underlying assets (which may be positive or negative), income payments and capital withdrawals (commutations). Due to these factors,

it is possible for the account balance to be exhausted before the life of the recipient. This is the risk of longevity. However, should there be an account balance remaining on your death, it may be paid to either the nominated beneficiary, your estate or used to pay an income stream to a reversionary pensioner.

The Government set limits are designed to reduce the account balance to zero over time – approximately the duration of your life expectancy at the date of purchase.

Please note that as part of the Federal Budget 2006 proposals, there will no longer be a maximum income limit and the minimum income payments are age dependant. Please refer to the “Facts and Figures” section of our website ([www.sherrinpartners.com.au](http://www.sherrinpartners.com.au)) to obtain the minimum payment levels.

## Transition to Retirement Strategy

For anyone who has reached their preservation age (currently 55) and is still working, there is now the ability to ease you into retirement. You can make up for your reduced income with a regular income stream from your superannuation benefits. This is called the transition to retirement strategy.

Until recently, you could only access superannuation benefits if a ‘condition of release’ was met i.e. turning 65 or retirement after attaining preservation age. This generally made it hard to reduce your working hours and maintain your standard of living. The introduction of a new ‘condition of release’ means it is possible for you to utilise part or all of your current superannuation benefits in a tax effective manner.

If you are over 55 and still working you can choose from the following options:

- Work less but maintain your lifestyle; (You can reduce your work hours and draw the shortfall from an income stream. Not only can you achieve the same level of income as if working full time but you save tax as well.)
- Reduce your taxable income; (You can continue to work full time but reduce your taxable income by salary sacrificing into super to boost your retirement savings.)
- Receive tax free income; (If you are age 60 you can reduce your taxable income by salary sacrificing some of your income into superannuation and receiving the shortfall from an income stream, completely tax free)