

# A guide to allocated pensions

You've accumulated a healthy balance in your super account and now you're looking forward to those retirement years you've been dreaming about. But what happens now? How do you ensure you get the most out of your super?

One option is to purchase an allocated pension (sometimes referred to as a super income stream) with your super, to provide you with a regular and tax-effective income stream during your retirement.

## What is an allocated pension?

An allocated pension is a super account that will provide you with a regular income stream from your super savings. The income stream will generally be available to you once you've retired from work. In some circumstances, you may be able to access it pre-retirement.

Each year you are required to withdraw a minimum pension payment, calculated by reference to your age. There is no maximum payment each year unless the pension was commenced pre-retirement.

You can hold a range of assets in your allocated pension account, including shares, managed investments, fixed interest and cash, depending on your investment strategy.

One of the best things about an allocated pension is that it's generally much more tax effective than taking your super as a lump sum.

## Tax benefits

- No tax is paid on any returns earned by the investments in your account. These tax-free earnings remain in your account to increase the value of your investment, so you can potentially receive more income with each payment or increase the life of your allocated pension.
- Payments from your allocated pension are tax-free once you turn 60.

- If you are at your preservation age but below age 60, some or all of the payments will be assessed at your marginal rate, but you are also entitled to a tax rebate of 15%. So a pensioner on a 30% marginal rate pays only 15% tax on income received, plus the Medicare levy.
- The proportion of tax-free component of your allocated pension balance at commencement will be returned as tax-free pension payments.
- Generally, Centrelink treats only part of the income you receive from an allocated pension as income, so you may still be eligible for social security payments.
- You may be able to roll any investments in your super account with large unrealised gains into your allocated pension account. No tax is payable upon rolling over, and you can sell the investment later free of tax.

## Flexibility

- By investing in long-term growth assets, any returns made should, over time, result in an increase in the value of your investment.
- Vary the amount of income you receive and the frequency and timing of each payment, depending on your changing needs. This is useful if you are balancing your allocated pension income against other income sources.
- Draw a lump sum at any time, say for a holiday or emergency. You have access to your money if and when you need it.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 July 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

## Estate planning

An allocated pension can run for your own lifetime (subject to there being sufficient capital available to fund your pension payments) or revert to a beneficiary (generally your spouse) after you die. Allocated pensions are a good way to secure an income stream for your spouse, giving you peace of mind.

### Case study:

#### George

George, aged 65, has just retired and has \$350,000 in super. After meeting with his financial adviser, he decided to purchase an allocated pension with his super funds. Under the levels set by legislation, for the first year of the allocated pension George must draw a minimum of \$17,500.

Let's assume George wants to receive \$30,000 pa as a pension. At marginal rates, \$30,000 of income normally results in tax payable of \$4,050 (including Medicare) but ignoring tax offsets. However, as George is over 60, the pension is paid 100% tax-free.

#### Jenny

Jenny is retiring at 55 and has the same super balance as George. Her minimum payment requirement is \$14,000. However, she also wants \$30,000. Normally the tax on this at marginal rates is \$4,050. However, as Jenny is at her preservation age (55), she receives a 15% tax offset on the pension payment - equal to \$4,050. This completely eliminates her tax liability.

## Things you should consider

Because a pre-retirement pension is non-commutable, you should set funds aside to offset those funds that are preserved.

You should also keep in mind the possibility of redundancy or a forced or unplanned early retirement once you're over 55, which could interrupt this retirement strategy. You may need to review the strategy so that you stop drawing from your retirement savings.

Allocated pension payments are not guaranteed at a certain level. Rather, they are linked to underlying market performance. As a result, if markets rise or fall, your pension payments may fall from one year to the next.

Allocated pensions are not guaranteed to last for your lifetime. They will cease once the account balance is exhausted.

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

### IMPORTANT INFORMATION

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