Understanding
Retirement Planning

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How to read this document

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important that you understand how these issues will impact on you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to **retirement planning.**

It is very important that you read this document to help you understand the benefits of the strategies recommended to you, and the associated costs and risks.

If you do not understand anything or need further clarification, please contact us.

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Retirement planning

When approaching retirement, an important consideration is how to invest your savings, including superannuation, so that you are able to replace your wage with regular income throughout retirement.

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

Listed below are some of the options available to fund your retirement:

- Invest outside of the superannuation environment (this may involve cashing out all or part of your superannuation benefits as a lump sum payment);
- Use all or part of your retirement savings to buy a regular income stream such as a pension; 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. You could choose to purchase investments such as property, managed funds or shares, or you could use your funds to pay off loans 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.

Factors to be aware of

- Generating income from investments held outside the superannuation environment may not be the most tax effective option for you.
- If you make a lump sum withdrawal from superannuation to invest into non-superannuation investments, you may lose access to tax-free income/earnings or the tax offset that is generally associated with income streams that are commenced with superannuation benefits.
- If you make a lump sum withdrawal from superannuation to invest into non-superannuation investments, you may lose the opportunity to reinvest your funds into the superannuation environment at a later date.
- Investing outside superannuation may impact on any current or future Centrelink benefits which you may be eligible for.

Commencing a pension

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. The main type of income stream available in today's market is a pension.

What is a pension?

A pension is a retirement income stream that can only be purchased with money held in superannuation.

With this type of investment all earnings generated are reinvested back into the account. Regular income payments are paid until the account balance is exhausted. Furthermore, any earnings generated or capital gains in the account are not subject to tax.

The benefit of a Pension is that income payments are both tax effective and concessionally treated under the social security income test.

Pension features

- You receive a flexible income stream in which you are able to choose the amount of income you receive subject to minimum payment percentages below set by the Government, no maximum will apply (with the exception of pensions commenced under the transition to retirement condition of release, which will have a maximum payment amount of 10% of the account balance each year). The minimum amount of your pension is the account balance multiplied by the percentage factor. You are able to choose the payment term ie, monthly, quarterly, half-yearly and annually.

Age	Percentage Factor
Under 65	4%
65 - 74	5%
75 - 79	6%
80 - 84	7%
85 - 89	9%
90 - 94	11%
95 or more	14%

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- Income payments may be concessionally taxed, refer to the *Taxation of Superannuation Pensions* section for further details.
- You pay little or no lump sum tax when transferring your money from a superannuation fund to a pension.
- Earnings on assets supporting these pensions will be tax exempt.
- Capital gains on assets supporting pensions is reduced to zero.
- You are able to access your capital funds at any time, with the exception of pensions commenced under the transition to retirement condition of release. As a result, you have the flexibility to make withdrawals in addition to your income payments.
- You are generally able to choose from a number of different investment options from which your pension payments will be drawn. This gives you some control over where and how your money is invested.
- Your investment will receive favourable Social Security treatment under the income test which could potentially improve your eligibility for Centrelink benefits.
- There is no mortality risk, which means that if you die before the capital invested (plus any investment earnings) is exhausted, the balance will be paid out to your nominated beneficiary, your estate, or legal representative.
- If, upon death, the account balance is paid to a dependant, such as a spouse or a child under 18 years of age, the lump sum will usually be paid tax- free.

Factors to be aware of

- The term of pension investment is not guaranteed which means your money may not last throughout your retirement.
- Your investment returns will fluctuate depending on economic and market conditions which means your investment can increase or decrease in value.
- The amount of income you withdraw must be subject to the prescribed minimum limits, no maximum will apply with the exception of pensions commenced under the transition to retirement condition of release.
- For those under 60, lump sum withdrawals from a pension taken on top of regular payments may incur tax.
- Tax may be levied on any remaining pension balance on death (for example, if paid as a lump sum to a non-financially dependant beneficiary, such as an adult child).

Taxation of superannuation pensions

When you receive an income payment from either a new or existing superannuation pension you may incur tax, depending on your age and the components of your pension.

Taxation of account based pensions

New superannuation pension accounts may include both tax-free and taxable components.

Each income payment (and commutation amount) from a superannuation pension will be deemed to include both taxable and tax free components and is based on the fixed percentage of these components at the commencement of the superannuation pension. This means that you cannot choose which components) to draw your pension from. This regime came into effect on 1 July 2007 and is known as the proportional draw down regime.

Outlined below is the tax treatment of income payments based on an individual's age and superannuation components.

Component	Age	Tax Rate
Tax-free	55 – 59	Tax-free
	60 +	Tax-free
Taxable	55 – 59	Taxed at marginal rates less a tax offset
	60 +	Tax-free

You will notice that income payments for those aged 60 and over are entirely tax-free.

For those aged 55 to 59, part of the income payment may be free of PAYG tax and a tax offset may apply to the remainder (taxable portion) of the pension payment, enhancing the tax efficiency of the income stream.

Taxation of existing pensions

Prior to 1 July 2007, pensions may have attracted a tax free amount (previously known as the deductible amount), based on the previous components such as the undeducted component. All income payments were taxable at marginal tax rates less any deductible amount.

Retirement planning (continued)

In some instances, tax offsets applied, which further enhanced the tax efficiency of these payments. The tax free amount was calculated by dividing the tax exempt components (usually the undeducted component) by the relevant number (usually the life expectancy).

Individuals under 60 will retain the existing 'deductible amount' status for pensions already in force as at 1 July 2007 and will continue to receive the same tax-free amount each year up to age 60, unless a trigger event has occurred.

Trigger events

Existing pensions will be converted to the proportional draw down approach when one of the following 'trigger events' occurs:

- You are aged 60 or over at 1 July 2007 (with the fixed percentages calculated as if you had received a benefit payment just before 1 July 2007)
- You reach age 60
- Your pension is wholly or partially commuted
- You die and the pension is continued by a dependant beneficiary, or a death benefit is paid as a lump sum to a non-tax dependant or your estate

Once a trigger event has occurred, the fixed percentage of the tax free component will be based on any unused undeducted purchase price and pre-July 1983 amount (if applicable) at the time of the trigger event. It is expected however, if you have non-pension interests in the same fund at the time of the trigger event, the tax components from these interests will not be included as part of this calculation.