

Ready, steady,

Starting your allocated pension

There are great tax breaks available if you're planning to start drawing on your super – as long as you go about it the right way. *Martin Murden explains.*

With the end of the financial year rapidly approaching, you may be among the many preparing to depart the workforce and start drawing a pension from your super fund. This will typically be what is known as an 'account-based' pension; its size will depend on the current balance of your super account plus future interest earnings. However, there are some wonderful tax breaks that can help boost your super nest egg – provided you follow the right steps when starting your pension.

1. Review your SMSF's trust deed or your current fund's pension options.

If you have a self managed super fund (SMSF), review the trust deed to ensure it allows for payment of all income streams available under current legislation, for example, a pension to a member of the fund and death benefits such as a lump sum payment or reversionary pension (when a member of a superannuation fund dies, his/her pension can revert to a spouse).

Superannuants in public offer funds should also review their fund to ensure it suits their pension requirements. It is important to know any restrictions that apply – for example, on how often you can change the amount of pension being paid or whether you can take extra one-off payments for holidays or significant expenses. You should also

find out the notice required for such changes or special payments.

2. Ensure all your super contributions are in the fund before you start your pension.

If you're self-employed or running your own business, make the final contribution payment either to your SMSF or public offer fund. If you're an employee, get your employer's confirmation that the final payment has been made.

3. Complete a 'Deduction for personal super contributions' form and submit it to your fund – that

is, if you make a last-minute personal contribution, want a tax deduction and are eligible to claim a personal deduction. Failure to lodge the form could be costly because once you start your pension, the trustees of the fund cannot change the tax status of money contributed.

For example, if you make a superannuation contribution of \$50,000, the amount of tax involved is as follows:

Tax bracket	Tax saved/lost
30 per cent	\$15,000
40 per cent	\$20,000
45 per cent	\$22,500

The 'Deduction for personal contributions' form can be downloaded from www.ato.gov.au/content/downloads/spr86434n71121.pdf.

4. If you are a member of more than one fund, consider amalgamating your super fund accounts. You should do this after you have made your final contributions to each fund and, if applicable, submitted a 'Deduction for personal super contributions' form for each. You then need to request the SMSF trustees or fund administrators to transfer your entitlements to the fund of your choice.



go!

5. Make sure your paperwork is in order. Members of SMSFs need to ensure pension documentation is prepared and kept as part of the fund's records. This paperwork will include an application to the trustees requesting a pension, trustee minutes, pension conditions and member information.

These documents are as important as the trust deed governing the fund. The fund's auditor will want to sight them to ensure the pension has been established in accordance with the fund's governing rules. If not, the fund may not be eligible for tax concessions on income. These documents will also set out what is to happen to the balance of your account on your death.

If you're a member of a public offer fund, you will need to contact your provider to initiate the pension process. Generally providers will send out the relevant forms.

6. Prepare a budget to help determine the size of pension you need. Besides your daily living expenses, don't forget to factor in retirement projects (travel, new hobbies and interests etc.), purchases to support these hobbies (such as a new car and caravan) and planned – or unexpected – expenses around the home such as upgrading the kitchen or replacing the guttering.

Estimate what your non-super income will be, for example, from investments held in your own name or a part Age Pension. The difference between this income and your budget will have to come from your super fund. If the amount required is too high, you will have to re-think your budget.

7. Draw the minimum or your target pension by 30 June of each financial year, and review payment

procedures. Super laws require you to draw at least a 'minimum' pension each year. This is calculated as a percentage of your account balance at 30 June and varies according to your age on 1 July immediately following.

For a person aged less than 65 years, the minimum is four per cent, rising to five per cent at age 65, six per cent at 75, and continuing to increase as you age (but see Note below). You can take more than the minimum each year, but taking too much can drain your fund.

You can make either periodic, ad hoc or annual withdrawals to satisfy this requirement. Members of public offer funds should request the trustee make a payment in late June of each year if the minimum amount has not been taken. People who have their own SMSF are required to ensure the minimum amount is paid; if it is not, the fund could lose tax concessions.

Note: In response to the global financial situation, the Government has reduced these minimums by 50 per cent, currently for the 2008/09 financial year only.

8. Review the investments that provide your pension. Remember that instead of making contributions, you are now withdrawing money. This may require changes to investment arrangements within your fund.

For SMSF members, this may mean altering the fund's investments to include a greater amount in cash and perhaps altering reinvestment procedures (e.g. taking dividends and distributions in cash rather than having them reinvested). This is to ensure there is cash available in the fund to pay your pension without having to wait for the proceeds of an investment sale or redemption.

A member of a public offer fund may want to give consideration to that fund's investment options, for the same reasons.

9. If you have a TTR income stream and an accumulation account, consider 'recasting'. If you have a transition to retirement (TTR) income stream from a pension account but continue to make contributions to your super fund via an accumulation account, merging or 'recasting' these two accounts will increase what is in the pension account, meaning more money will be tax exempt. 'Recasting' means you stop an existing pension, the money you have continued contributing to the fund is added to the pension account, and the pension recommences. (This will be a new superannuation pension and has to be appropriately documented.)

In summary

As the above pointers indicate, applying a little thought and taking the right actions prior to starting a super pension could have a significant impact on your lifestyle in retirement, by enabling you to increase the value of your super account and enjoy more freedom to pursue your retirement goals. ■

Disclaimer: Superannuation and retirement planning are complex areas. The above notes are of a general purpose only. Before acting on any of the areas covered above it is recommended that you obtain professional advice.

→ MORE

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Comprehensive information on super is available from the **Australian Taxation Office** (www.ato.gov.au). To land directly in the personal super section, go to <http://tinyurl.com/cxsr6>.