Aspirations Wealth Group

Build and Protect your Wealth

Fact Sheet

Retirement

The purpose of this fact sheet is to help you understand retirement income that relate to a personal financial plan.

This includes:

- ⇒ Investment options
- ⇒ Account based pensions
- ⇒ Defined benefit pensions
- ⇒ Annuities
- ⇒ Transition to retirement (TTR)
- ⇒ Transfer balance cap
- ⇒ Tax

Investment options

There are several options available to fund your retirement including:

⇒ Investing outside of the superannuation environment (which may involve cashing out all or part of your superannuation benefits).

⇒ The purchase of an account based pension utilising superannuation funds.

⇒ The purchase of an annuity either with superannuation funds or non-super monies.

⇒ A combination of the above.

Investing outside of super

You have the option of investing all or some of your superannuation funds outside of the super environment. You may elect to purchase property, managed funds, shares or pay off loans or just keep funds in the bank.

However, generating a regular income stream with monies held outside of superannuation may not be the most efficient or tax effective strategy. This is because income generated outside of super is not necessarily received tax free as it is within super (once you have met certain conditions).

If you make a lump sum withdrawal from superannuation to invest into non-superannuation investments, you may also lose the opportunity to reinvest your funds into superannuation at a later date.

Additionally, investing outside superannuation may impact on current or future Centrelink benefits for which you may be eligible.

Account based pensions

This is a retirement income stream that can only be purchased with money held in superannuation. Features of an account based pension are as follows:

⇒ Regular income payments are paid until the account balance is exhausted.

⇒ Any earnings generated or capital gains are held within the account and are not subject to tax (provided certain conditions are met).

⇒ Income payments are generally tax free or concessionally taxed.

⇒ For Centrelink purposes, the value of the superannuation pension is counted as an asset and income is deemed (for pensions commenced prior to 1 January 2015 other rules may apply).

⇒ You can choose the amount of income you receive subject to minimum payment percentages set by the Government. No maximum applies (unless it is a Transition to Retirement pension – discussed later).

⇒ The minimum amount of your pension is the account balance multiplied by the percentage factor set by the Government. You are able to choose the payment term ie, monthly, quarterly, half-yearly or annually depending on the product provider.

⇒ You can access capital at any time (not Transition to Retirement pensions) and can make lump sum withdrawals or increase your income payment.

⇒ Generally, there are a number of investment options from where you can draw your pension, giving you some control.

⇒ Upon your death, the balance will be paid out to your nominated beneficiary, your estate or legal personal representative.

⇒ If upon death the balance is paid to a dependant, the funds will normally be received tax free. If not a dependant, tax will be payable on the taxable portion of the fund.

⇒ Your investment returns will fluctuate depending upon the investments chosen within your fund and returns are not guaranteed. There is also no guarantee that funds will last throughout retirement.

Defined benefit pensions

A defined benefit pension is an older style of superannuation pension that was common in the public sector and local government workplaces until around 1990.

The pension you receive at retirement is generally determined by a formula based on how long you have worked for your employer and your final average salary over a number of years. Pension payments are not linked to investment performance and the plan rules set out exactly how the pension benefit is determined.

Most defined benefit plans also allow you to make voluntary contributions to an accumulation account in addition to your defined benefit.

However, most are now closed to new members.

As there are many advantages with this type of pension, it is important that your options be fully discussed with your adviser to avoid potentially making an inappropriate decision at retirement. Once you have exited this type of pension, you can no longer re-join at a later date.

Annuities

This type of pension pays a series of regular guaranteed income payments for either a fixed period of time or for life. They may be purchased with superannuation or non-superannuation monies.

If superannuation funds are used, income payments receive the same tax treatment as account based pensions. Those purchased with non-superannuation monies receive a tax free amount with each pension payment, which represents the return of capital.

Features of a **term** annuity include:

⇒ Payments are guaranteed by the provider for the term of the annuity and you can nominate the term and payment frequency.

⇒ Payments may remain level or be indexed each year to keep pace with inflation.

⇒ You can elect to have capital returned to you throughout the term of the annuity or as a lump sum at the end.

⇒ You lock in the applicable interest rate at the beginning of the investment and you are therefore not subject to adverse movement in investment markets.

⇒ If you pass away before the end of the term, the income may be paid directly to your beneficiary or your estate.

Features of a **lifetime** annuity include:

⇒ If you pass away the annuity can revert to a spouse. However, if there is no reversionary, there is no residual capital value to be paid out to beneficiaries.

⇒ Payments are guaranteed for your lifetime. You can also elect to apply a 'guaranteed period' which means that income will continue to be paid for a minimum period even if you pass away.

⇒ You can elect the frequency of the payments and also select to have the payments indexed.

⇒ You lock in the applicable interest rate at the beginning of the investment and you are therefore not subject to adverse movement in investment markets.

⇒ Part of the income you receive may be tax free.

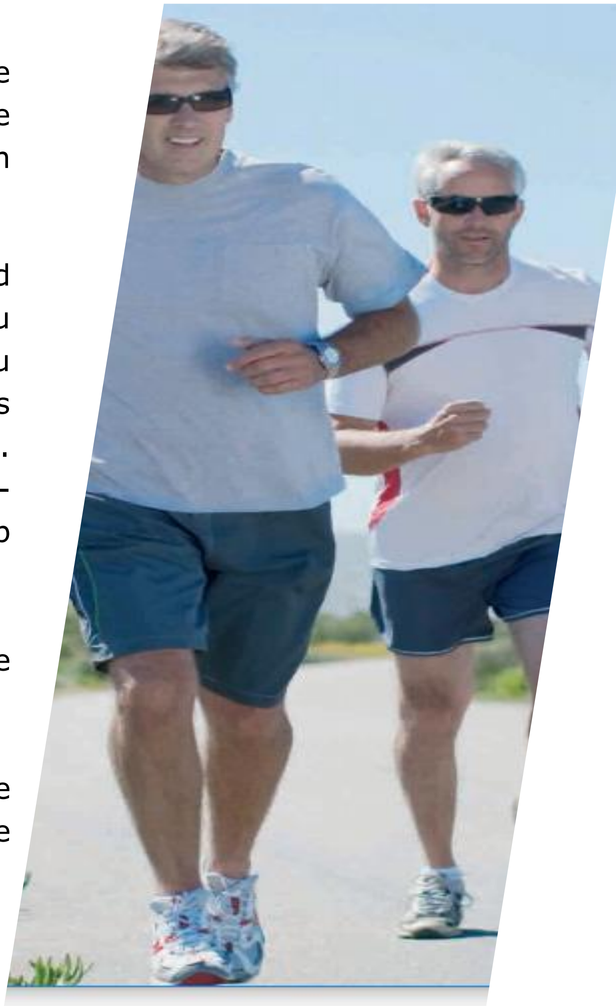
Drawbacks of this type of product include that you are locked into a specific pension payment and interest rate for the life of the annuity. Additionally, you can't generally make lump sum withdrawals without financial penalty.

Transition to Retirement (TTR)

Once you have reached your 'preservation age' you may elect to begin a TTR pension. This type of pension is non-commutable which means you cannot make lump sum withdrawals and your pension payment is limited to between 4% and 10% of the balance of the fund. You can, however, roll monies back into accumulation phase and cease receiving a pension at any time.

Preservation age is dependent upon date of birth as shown in the following table:

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



Investment returns and realised capital gains within this type of pension fund are taxed up to 15% until you reach the age of 65 or retire. From that point there is no tax levied within the pension fund.

Generally your TTR pension will comprise both taxable and tax-free components. Employer contributions, amounts you have salary sacrificed, personal contributions for which you have claimed a tax deduction, and any investment returns earned by your fund form part of the taxable component. Other amounts, such as after tax non-concessional (after-tax) contributions and spouse contributions, will make up your tax-free component.

TTR pension payments for those over the age of 60 are received entirely tax free.

If you are under age 60, pension payments from the taxable component of the fund are included in your assessable income, but receive a 15% tax offset.

Transfer balance cap

This cap limits the amount that can utilised to commence a superannuation pension and receive the benefit of 0% earnings tax. It applies to all retirement income streams commenced with superannuation money and is currently $1.6 million per person.

Everyone has their own transfer balance cap and when you commence a pension (not TTR pension) you will have a notional 'transfer balance account'. This is where certain types of transactions you make in relation to your income stream is recorded. If the transfer balance account exceeds the cap at any time, penalties may apply.

When a pension is commenced, the amount utilised to purchase the pension is 'credited' to the transfer balance account. For example, if you commenced a superannuation pension account with $1.3 million, this amount would be credited to your transfer balance account. Essentially this means that you could contribute a further $300,000 towards another superannuation pension and not breach the cap.

If you make lump sum withdrawals from your pension account (not additional pension payments), this reduces your balance. For example, in the above scenario, if you were to withdraw $100,000 from your pension, you could potentially contribute a further $400,000 towards another superannuation pension and not breach the cap.

Defined benefit income streams do not normally have a balance or value, however, for the purposes of the transfer balance cap the value is calculated as 'annual income x 16'.

The transfer balance cap may be indexed in future years to CPI in $100,000 increments. If you have already exhausted the cap, the indexation will not be available. However, if you have not yet commenced a pension the full indexation will apply. If you have utilised a portion of the transfer balance cap, indexation will only apply to the proportion of the unused cap.

Superannuation pensions - taxed and untaxed funds

Most superannuation funds are taxed funds, meaning earnings within the fund have been taxed. This includes public offer funds, industry funds and self-managed superannuation funds.

Some super funds however are untaxed and different taxation rules apply for these, particularly when taking a benefit as a lump sum or an income stream.

An example of an untaxed fund is the Commonwealth Superannuation Scheme, and particular advice would need to be sought in relation to a fund such as this.

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 within your fund.

If you are over the age of 60, no tax is payable on pension payments.

For those preservation age to 59, the tax free component of the income payment is free of Pay As You Go (PAYG) tax and the remainder (taxable portion) of the pension payment, will be taxed at your marginal tax rate with a 15% tax offset.

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

Each income payment (and withdrawal 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 you cannot choose which component(s) to draw your pension from. This regime came into effect on 1 July 2007 and is known as the proportional drawdown regime.

Aspirations Wealth Group

Build and Protect your Wealth

Aspirations Wealth Group Pty Ltd

ABN 17 066 549 906

Corporate Authorised Representative

Aspirations Private Wealth Pty Ltd

www.aspirationswealth.com.au

Phone: (02) 9580 7966

Postal: PO Box 210 Miranda NSW 1490

Office: Level 1, 621 Kingsway Miranda NSW 2228