

# Super strategies

Convert your super into a tax-effective retirement income

Starting an account based pension with your super when you retire could enable you to receive a tax-effective income and make your savings last longer.

## How does the strategy work?

When you retire, it can be tempting to take your super as a cash lump sum. However, using your super to start an account based pension<sup>1</sup> could be a more tax-effective option. This is because:

- no tax will be payable on earnings in the fund<sup>2</sup>
- you can receive \$49,753<sup>3</sup> pa in tax-free income between your 'preservation age'<sup>4</sup> and 59, and
- when you reach age 60, the pension income payments will be completely tax-free<sup>5</sup> and you don't have to include these amounts in your annual tax return.

## Seek advice

A financial adviser can help you determine whether an account based pension suits your needs and circumstances.

Maximum taxable income that can be received tax-free (pa)		
Age	From investments held outside super	From account based pension (taxed fund)
Preservation age <sup>4</sup> to 59	\$20,542 <sup>6</sup>	\$49,753 <sup>3</sup>
60 to Age pension age <sup>7</sup>	\$20,542 <sup>6</sup>	Unlimited tax-free <sup>5</sup> income payments. Also, you don't have to include the income payments in your annual tax return
Age pension age <sup>7</sup> and over	\$32,279 <sup>8</sup> (for singles) and \$28,974 <sup>8</sup> (per member of a couple)	As above

<sup>1</sup> There is a limit on the total amount that can be transferred to retirement phase in a person's lifetime. This limit is \$1.6 million in 2017/18 (subject to indexation).

<sup>2</sup> Assumes you are in retirement phase.

<sup>3</sup> Takes into account low income tax offset and 15% pension tax offset and assumes no other income is received.

<sup>4</sup> Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60 depending on date of birth.

<sup>5</sup> Assumes the pension is commenced from a taxed super fund.

<sup>6</sup> Takes into account low income tax offset.

<sup>7</sup> Age where you become eligible for age pension.

<sup>8</sup> Takes into account low income tax offset and Seniors and Pensioners tax offset.

## Case study

Warren, aged 60, has \$500,000 in super and \$150,000 in a bank account. He is about to retire and needs an after-tax income of \$50,000 pa to meet his living expenses.

He was considering taking his super as a lump sum and investing outside super in a managed fund.

However, his financial adviser explains that if he uses his super to start an account based pension, he'll pay less tax<sup>9</sup> on his income during his retirement. This is because the income payments from the account based pension will be tax-free.

As a result, Warren's adviser estimates he'll use up less of his capital and will have more money left over at the end of 5, 10 and 15 years (in today's dollars).

After year:	Value of investments		Value added by starting account based pension
	Take lump sum and invest outside super <sup>10</sup>	Start account based pension	
5	\$536,067	\$540,749	\$4,682
10	\$378,346	\$388,193	\$9,847
15	\$217,667	\$255,276	\$37,609

- <sup>9</sup> This will vary depending upon individual amount of investments and circumstances.
- <sup>10</sup> These figures reflect any tax that would be payable on unrealised capital gains if the managed fund was cashed out at the end of each of these periods.

**Assumptions:** Income from all sources is used to meet cashflow needs. Any deficit shall be drawn from the bank account. Warren's super balance of \$500,000 consists entirely of the taxable component. Both the account based pension and managed fund generate a pre-tax return of 7.74% (split income of 3.68%, growth of 4.06% and franking of 28.55%). The bank account provides an income of 3% pa. Warren's after-tax income goal (\$50,000 in year one) is indexed at 3% pa. Any income received above Warren's requirement is invested in the bank account. Where applicable, age pension benefits are taken into account. Warren is a home owner and, apart from his bank account, he has no other financial assets that would impact the assets test.

## Important information and disclaimer

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