

Can Your Super Fund Do This?

An Information Evening

Presented by

Moneytax Financial Planning

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Club Menai



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What we will cover tonight

1. An update/refresher on the newly introduced superannuation rules and regulations
2. Information on a powerful strategy that:
 - Allows you to reduce your working hours prior to retirement whilst not affecting your income levels; or
 - Permits you to keep working, and restructure your income flows to result in a bigger nest egg
3. Introducing you to innovative and specialised products – structured to accelerate wealth creation whilst providing capital protection



How much can I put into super?

- Concessional Contributions

- Age under 50 - \$50,000 per annum
- Age 50 and over – 100,000 per annum (until 30 June 2012)

Note: substantially self employed or unsupported persons can claim 100% of contributions and from 1 July 2007, persons can claim a deduction up to age 75

- Non-Concessional Contributions

- Under age 65 - \$150,000 pa (or bring forward 3 year's worth of contributions all at once)
- Age over 65 to 74 - \$150,000 (no bring forward benefits)



When can I put money in to super?

- Under 65 – no restrictions
- Age 65 to 69
 - Contributions under award or SG
 - Contributions by or on behalf of a member allowed when member is gainfully employed at least part time (40 hours in no more than 30 consecutive days) in the financial year the contribution is made
- Age 70 to 74
 - Contributions made under award
 - Personal and employer contributions allowed when member is gainfully employed at least part time in the financial year the contribution is made
- Age 75 and over
 - Contributions made under award



When can I take my money out?

- Attaining age 65
- Retirement
 - After preservation age - termination of employment and no intention to return to full time or part time employment
 - Age 60 and over – termination of employment
- Reaching preservation age but not retired – can access funds via a non-commutable income stream only
- Permanent incapacity (SIS definitions)
- Financial hardship or compassionate grounds
- Permanent departure from Australia – temp visa holders only
- Termination of employment – only for RNP benefits



Are there restrictions on my allocated pension?

- Now referred to as an Account Based Pension
- Minimum payments depend on age
 - Under 65 – 4%
 - Age 65 to 74 – 5%
 - Age 75 to 79 – 6%
 - Age 80 to 84 – 7%
 - Age 85 to 89 – 9%
 - Age 90 to 94 – 11%
 - Age 95 and over – 14%

No maximums apply – except where a non-commutable ABP is accessed. Maximum amount is 10%



How will I be taxed?

- Withdrawals from super (Lump Sum) – Taxed element
 - Below preservation age – @ 20%
 - Preservation age to age 59 – first \$140,000 (indexed each year) @ 0%; thereafter 15%
 - Aged 60 and above – tax free
- Withdrawals from super (Income Stream) – Taxed element
 - Below preservation age – marginal tax rates (no tax offset)
 - Preservation age to age 59 – marginal tax rates with 15% tax offset
 - Aged 60 and above – tax free

Tax free components are always tax free



How will my dependent beneficiaries be taxed?

- Lump sum payment – tax free (deceased any age, recipient any age)
- Income Stream
 - Deceased age 60 and above (recipient any age) – taxed element tax free; untaxed element subject to MTR and recipient receives a 10% tax offset upon this amount
 - Deceased below age 60 (recipient ≥ 60) – taxed element tax free; untaxed element subject to MTR and recipient receives a 10% tax offset upon this amount
 - Deceased below age 60 (recipient < 60) – taxed element subject to MTR and recipient receives 15% tax offset; untaxed element subject to MTR with no tax offset



How will my non-dependent beneficiaries be taxed?

- Lump sum payment
 - Taxed element subject to 15% tax (the deceased can be of any age, as can the recipient)
 - Untaxed element – subject to 30% tax
- Income Stream
 - Not applicable after 1 July 2007
 - Income streams commenced prior to 1 July 2007 will be taxed as if received by a dependent



Other Important Information

- Income protection policies owned by a super fund now have a longer benefit period
- SATO 2007/2008
 - Single: No tax < \$25,867 – Cut off \$43,707
 - Couple (each): No tax < \$21,680 – Cut off \$34,496
- Centrelink – Age Pension Assets Test
 - Single HO: \$166,750 / \$343,500 / \$520,750
 - Couple HO (comb.): \$236,500 / \$531,000 / \$825,500
 - Single NHO: \$287,750 / \$464,750 / \$641,750
 - Couple NHO (comb.): \$357,500 / \$652,000 / \$946,500



Other Important Information

- The self employed may also now qualify for the co-contribution of up to \$1,500 pa when making personal undeducted super contributions
- Unsupported persons are not eligible for the co-contribution
- Lower threshold \$28,980; cut off \$58,980
- Unsupported = must not be eligible to receive super support from an employer in the relevant financial year
- Self employed = must receive < 10% of their assessable income (+RFB) from eligible employment



An examination on these facts and figures will
now take place



Pre-Retirement Pensions

Feel the Love!

Former Foe becomes Fabulous Friend



Transitioning to Retirement

- Many people find being able to wind back the amount of work they do and increase the amount of non-work time is an ideal way to begin the transition to retirement
- In an ideal situation you might decide to:
 - Cut back your working hours
 - Retrain or consider a change of career
 - Try out retirement part-time before you say goodbye to working life for good



Would early access to your super help?

- Early access to super may provide some options to retire in a particular timeframe, and in a way that better suits your needs
- Transition to retirement can have potential tax advantages
- Rules allow:
 - An early drawdown on retirement savings before permanent retirement
 - Using pre-retirement pensions



Who can access a pre-retirement pension?

- To start a pre-retirement pension you must:
 - Have reached preservation age (at least 55 years old, depending on the year you were born)
 - Have funds in super



Potential Positives

- Provides you with some more options in your retirement planning such as when you retire and on what income
- It may enable you to supplement your pre-retirement income
- It may assist with pre-retirement work/life balance - you may be able to work part-time
- It may offer tax advantages



Potential Pitfalls

- It may reduce your retirement savings sooner which means less money when you fully retire
- There is no lump sum access during pre-retirement phase
- Minimum and maximum draw-down limits apply
 - Minimum: 4% of account balance
 - Maximum: 10% of account balance
- New Government Risk



What you need to check?

- If a member of a industry/retail super fund, does the fund allow pre-retirement pension and salary sacrificing and dual member accounts and super splitting?
- Are you affected by an award, that may limit your ability to salary sacrifice?
- Does your employment arrangement allow you to salary sacrifice? If not, be careful as to the timing of the extra contributions
- Does your employment arrangement pay SGC on your pre-sacrificed income, or is it paid based on your new cash salary?



What you need to check?

- If a member of an SMSF, is the deed up-to-date? Does it permit not just the TTR amendments, but all recent changes to the superannuation system



Case Study - David

- David has a full-time salary of \$50,000 pa
- Wants to work part-time between age 55 and 65
- He has \$300,000 accumulated in super

Can David use a pre-retirement pension to help his retirement planning?

- David commences a pre-retirement pension and draws the necessary level of pension income
- He takes a reduced salary of \$30,000 pa



Case Study results - David

	Using a PRP	Fully Retired
Salary	\$30,000	NIL
Pension Payment*	\$16,290	\$41,260
Tax Paid	\$6,140	\$1,110
After Tax Income	\$40,150	\$40,150
At age 65		
Retirement balance	\$303,900	NIL**
Minimum pension	\$15,200	NIL



Case Study - Judy

- Judy has no plans to change employment arrangements
- She has \$400,000 accumulated in super
- Judy has reached age 55 and works full-time

Can Judy use a pre-retirement pension to help her retirement planning?

- Judy commences a pre-retirement pension and draws the minimum pension income
- She salary sacrifices to super so net income is unchanged



Case Study results – Judy (part 1)

	No PRP	With PRP
Salary	\$70,000	\$70,000
Salary Sacrifice	NIL	(\$20,234)
Pension payment	NIL	\$16,000
Tax Paid	\$16,650	\$12,416
After tax income	\$53,350	\$53,350
At age 65		
Retirement balance	\$641,900	\$707,500
Minimum pension	\$32,090	\$35,380



Case Study results – Judy (part 2)

- How would Judy's position change if she salary sacrificed more?
- Judy salary sacrifices to super so her taxable income is \$30,000
 - 15% marginal rate applies



Case Study results – Judy (part 2)

Salary	\$70,000
Salary sacrifice	(\$56,000)
Pension payment	\$16,000
Tax Paid	\$450
After tax income	\$29,550
At age 65	
Retirement balance	\$979,600
Minimum pension	\$48,980



Why the difference?

- Tax Concessions
 - Paying 15% contributions tax into super (via salary sacrificing) rather than receiving your salary at your marginal tax rate
 - As your super is in the pension phase, earnings within the fund are tax-free
 - Prior to age 60, pension payments are received with a 15% tax rebate attached (to taxable contributions)
 - After age 60, pension payments are received tax-free



Mythbuster

- “I can’t implement this strategy... I don’t earn enough/don’t have enough in super”
- However, anyone with accessibility to their super benefits, flexible and modern remuneration arrangements, and superannuation funds that properly cater for their members, can take advantage of this strategy
- Contact MFP for an analysis of your situation



Can you benefit from advice on transition to retirement?

- Can it help you plan for retirement?
- Do you have enough super?
 - Can you generate enough pension income?
 - Do you need to top-up your super now?
 - Are there strategies to maximise retirement savings whilst easing out of full-time employment?
 - Are you able to salary sacrifice?
- We can help you make sense of the options



Questions?

Please join us after tonight's presentation for the
Question Bombardment Period

Thank You

